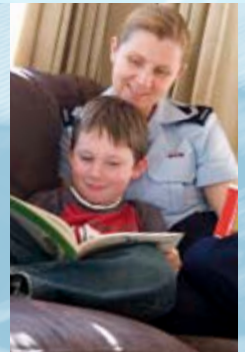


ANNUAL REPORT

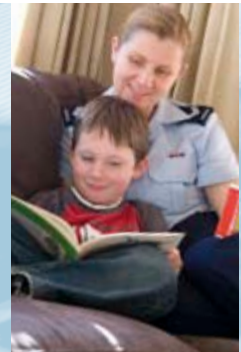
2005-06





ANNUAL REPORT

2005-06



READERS GUIDE

This is the Defence Housing Authority's annual report to the Minister for Defence and the Special Minister of State for the 2005–06 financial year.

The report meets DHA's formal reporting obligations under the *Commonwealth Authorities and Companies Act 1997* and the *Public Service Act 1999*.

It details DHA's performance for the financial year and highlights our progress towards delivering efficient and high quality housing and relocation services that meet the needs of our customers, our clients and our investors.

STRUCTURE OF THE REPORT

This report is structured around DHA's four strategic themes:

- Delight the customer
- Value for money for clients
- Meet shareholder requirements
- Effective and innovative management

FURTHER INFORMATION

To obtain further information about the contents of this report, please contact:

Communication and Media Manager
Defence Housing Authority
26 Brisbane Avenue
BARTON ACT 2600
Ph: 02 6217 8444
Email: communications@dha.gov.au

This report can also be found on DHA's website, www.dha.gov.au

FEEDBACK

DHA is continually looking for ways in which to improve its business activities and processes. We are committed to good governance and welcome any feedback on this report. Comments can be provided via email to communications@dha.gov.au or via DHA's website, www.dha.gov.au

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9 October 2006

The Hon Dr Brendan Nelson MP
Minister for Defence
Parliament House
CANBERRA ACT 2600

The Hon Gary Nairn MP
Special Minister of State
Parliament House
CANBERRA ACT 2600

Dear Ministers

On behalf of the Defence Housing Authority (DHA), and in accordance with the *Commonwealth Authorities and Companies Act 1997*, I am pleased to submit to you the Defence Housing Authority 2005–06 Annual Report.

This report covers DHA's activities in providing high-quality housing and relocation services to Australian Defence Force members and their families during the past financial year.

2005–06 was another successful period for DHA in which we met all of our key strategic objectives and financial targets. DHA generated strong financial returns during the year, which will result in payment to the Australian Government of an ordinary dividend of \$76.8 million.

On 31 August 2005, Mr Keith Lyon retired as Managing Director of the DHA. Mr Michael Del Gigante was appointed Acting Managing Director of DHA on 1 September 2005 and remained in this position throughout the reporting period.

On 4 August 2006, the Board appointed Mr Del Gigante as Managing Director.

I convey the thanks of the Board and all associated with DHA for your interest in and support for the activities of the Authority.

Yours sincerely

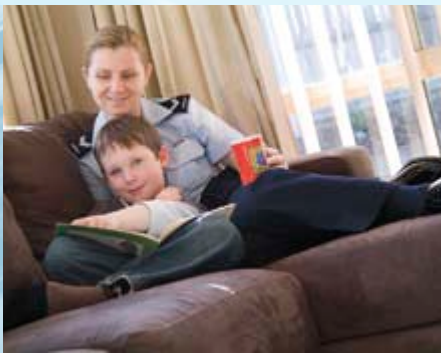


The Hon Peter Jones AM
DHA Chairman

Peter V. Jones AM
Chairman

26 Brisbane Avenue Barton ACT 2600
Telephone: 02 6217 8401 Facsimile: 02 6277 1175
Email: peter.v.jones@dha.gov.au Internet: www.dha.gov.au

DHA THE YEAR IN REVIEW



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WHO WE ARE AND WHAT WE DO

Our vision

To be recognised as the expert in Defence housing and relocation services.

Our mission

To deliver total housing and relocation services that meet Defence operational and client needs through a strong customer and business focus.

Meeting the operational needs of the Australian Defence Force requires the Defence Housing Authority to provide cost-effective housing and relocation services to ADF members and their families, at a standard that supports the Department of Defence in the recruitment and retention of highly-trained personnel.

Who we are

The Defence Housing Authority was established as a Statutory Authority in 1988 under the *Defence Housing Authority Act 1987*. In 1992 DHA also became a Government Business Enterprise (GBE). Our primary function is to provide high quality housing and relocation services to members of the Australian Defence Force (ADF) and their families to meet the operational needs and requirements of the Department of Defence. We also provide housing and relocation services to members of the Australian Customs Service (ACS).

DHA is required by its enabling legislation to perform its functions in accordance with:

- the policies of the Australian Government; and
- sound commercial practice.

DHA is part of the Defence portfolio and is responsible to the Hon Dr Brendan Nelson MP, Minister for Defence, a Shareholder Minister, and Senator the Hon Sandy Macdonald, Parliamentary Secretary to the Minister for Defence.

Senator the Hon Nick Minchin, Minister for Finance and Administration, is a joint Shareholder Minister of DHA and has delegated this responsibility to the Hon Gary Nairn MP, Special Minister of State.

Our strategic themes

DELIGHT THE CUSTOMER

Focusing on serving our customers – Australian Defence Force members and their families, staff of the Australian Customs Service and our investors – by providing housing and related services and relocations that anticipate and meet customer needs.

VALUE FOR MONEY FOR CLIENTS

Focusing on meeting the performance requirements of the Department of Defence and the Australian Customs Service – cost-effective management of stock within agreed parameters.

MEET SHAREHOLDER REQUIREMENTS

Focusing on meeting the financial requirements of our Shareholder Ministers – appropriate financial returns and capital efficiency.

EFFECTIVE AND INNOVATIVE MANAGEMENT

Aimed at attracting and retaining lessors; positioning DHA for emerging business opportunities; operating commercially, efficiently and innovatively; and attracting, retaining and developing competent, motivated and customer-focused staff.

What we do

DHA manages approximately 17,000 residences in all states and territories of Australia, representing about \$6.2 billion worth of housing stock. Around 62 per cent of these houses are owned by private investors and leased back to DHA through our very successful Sale and Leaseback (SLB) Program. In the next three years we will spend approximately \$1.4 billion on building and acquiring new houses for the ADF and other Commonwealth agencies.

We provide a full tenancy and maintenance service to all tenants. We also administer a range of entitlements and allowances paid to ADF members for their housing and relocation requirements.

We assumed responsibility for relocations from the Department of Defence in 2001. We organise relocations for around 30,000 ADF members and their families each year. With 32 Housing Management Centres and other local offices and 689 staff, we provide a face-to-face service in the vicinity of most major military establishments around the country.

FEDERAL MINISTERS WITH RESPONSIBILITY FOR DHA

The Hon Dr Brendan Nelson MP, Minister for Defence

Senator the Hon Nick Minchin, Minister for Finance and Administration

Senator the Hon Sandy Macdonald, Parliamentary Secretary to the Minister for Defence

The Hon Gary Nairn MP, Special Minister of State

DEFENCE HOUSING AUTHORITY BOARD OF DIRECTORS

DHA delivers to:

The Department of Defence

Australian Defence Force (ADF)

ADF members and their families

**Australian
Customs
Service (ACS)**

ACS Staff

**Individual
lessors**

**Institutional
lessors**

**Defence
Stakeholder
organisations**

Defence Families
Australia

Defence
Community
Organisation

Defence Special
Needs Support
Group

Housing and relocation services

- Housing to meet the needs of our customers through construction, acquisition and leasing
- Relocation services
- Maintenance services
- Tenancy management

Quality housing through:

- The Sale and Leaseback Program
- Direct Leasing

Support for stakeholder activities

CHAIRMAN AND MANAGING DIRECTOR'S REPORT

The 2005–06 financial year was a year of transformation and growth for the Defence Housing Authority. Our top priority will continue to be the provision of housing-related services to Australian Defence Force (ADF) members and their families.

Over the last few years the DHA has continually improved its performance and 2005–06 was no exception. We continued to improve the standard of the housing portfolio, and we introduced an improved relocations process. We cut costs and improved efficiency, while continuing to meet our Key Performance Indicators. DHA's operating result for 2005–06 was \$100.6 million, which was slightly above our Corporate Plan target.

DHA's capital program meets the Department of Defence's requirement for the replacement of older houses with contemporary property, consistent with community standards. For the next three-year planning period, the cost of the program is estimated at \$1.4 billion, which will see the delivery of 2,945 new homes.

As ever, trends in the property market will continue to be a major factor in the development of our business strategy, and we will continue to explore and analyse innovative ways to address the highs and lows in this sector.

During the year DHA's Sale and Leaseback Program celebrated its tenth anniversary, marking a decade in which residential property investors have been able to take advantage of our secure, long-term leases. We also completed our first sale to a financial institution, agreeing to sell \$99.6 million worth of residential property to Westpac Funds Management Limited in a single transaction. In 2005–06 we sold 844 properties on a sale and leaseback basis, including the institutional sale. The Sale and Leaseback Program enables DHA to retrieve capital for further investment in housing.

This achievement proves the attractiveness of our residential investment product and demonstrates our ability to respond to changing residential property market conditions in innovative ways.

Significant changes to the *Defence Housing Authority Act 1987* were passed by Parliament in May 2006. These amendments will come into effect in November 2006, and offer opportunities for us to broaden our functions to provide services to a range of other Commonwealth agencies.

These legislative changes will result in a new, more commercially-focused Board and the establishment of an advisory committee. The Authority's name will be changed to Defence Housing Australia.

As part of our strategy to take advantage of growth opportunities, DHA, in a joint venture, submitted a tender response for the Department of Defence 'Single LEAP' project. If successful in winning this business, DHA will be able to help provide modern, quality on-base accommodation for ADF members.

We are trialling the provision of off-base accommodation for single ADF members (members without dependants) in Darwin. If the trial is successful, it may result in future business opportunities for DHA.

In 2005–06, we reinforced our commitment to customer service through a number of initiatives. DHA joined the Customer Service Institute of Australia (CSIA), and undertook a certification process against the CSIA International Customer Service Standard. This specialist, third party analysis of our approach to customer service has assisted us to identify avenues for further improvement.

DHA also developed a new online application for relocation service for ADF members, for introduction in 2006. This was the direct result of customer feedback and demonstrates our commitment to improving the ease with which our customers can interface with DHA.

As a Government Business Enterprise, DHA has a responsibility to operate commercially. We have to meet the return on equity targets agreed with our Shareholder Ministers.

Challenges and opportunities for DHA in coming years include continuing to upgrade the housing portfolio against a new minimum standard to be introduced by Defence, and providing housing for single ADF Members both on and off-base, if the DHA is successful in gaining this business from Defence. Further, we intend to develop services for new clients, using the new powers contained in the recent amendments to the DHA Act and to improve our relocations business, while continuing to meet return on equity targets.

For DHA to meet these challenges and opportunities, while continuing to meet the expectations of its clients and customers, increasingly close collaboration with DHA's clients will be necessary. DHA must also have access to flexible sources of capital, must act commercially in conducting its business and must undertake effective, innovative planning and decision-making. DHA must continue to focus on all aspects of its performance and efficiency. DHA will continue to develop and implement strategies that will meet its challenges.

The Directors of the Defence Housing Authority are pleased to present their annual report for the financial year ending 30 June 2006.

The Directors are responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* for the preparation and content of this report, in accordance with the Finance Minister's Orders.

This report is made in accordance with a resolution of the Directors.



The Hon Peter V Jones AM
Chairman



Mr Michael Del Gigante
Managing Director

The Hon
Peter V Jones AM

Mr Michael
Del Gigante



DHA AT A GLANCE

Delight the customer

OBJECTIVE: PROVIDE HOUSING, RELATED SERVICES AND RELOCATIONS THAT ANTICIPATE AND MEET CUSTOMER NEEDS

KEY PERFORMANCE INDICATORS	2005-06 TARGET	2005-06 ACHIEVEMENTS		PAGE REFERENCE
ADF member satisfaction with house	80 per cent	83 per cent of customers satisfied with their Service Residence accommodation	⬆	9 2, 5
ADF member satisfaction with maintenance services	80 per cent	91 per cent of customers satisfied with DHA maintenance services	⬆	10-11
ADF member satisfaction with overall DHA relocations services ¹	80 per cent	81 per cent of customers satisfied with overall DHA relocations services	⬆	8-9

Key strategies and activities

Maintain and improve the housing portfolio consistent with standards required by the Department of Defence and ADF members (quantity, choice, amenity and location). 2-5

Provide Defence Choice Housing (DCH)² consistent with demand. 2-5

Deliver a responsive maintenance service. 10-11

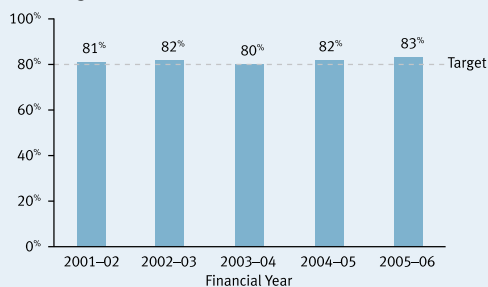
Deliver relocation services that meet customer expectations. 6-8

⬆ BETTER THAN TARGET ✓ ON TARGET ⬇ TARGET NOT MET

1 Result excluding ADF member satisfaction with their removal, a service provided by contractors.

2 Defence Choice Housing is housing that provides additional lifestyle choices for ADF families, specifically trading functional amenity for location.

Percentage satisfied with current DHA accommodation



83%

of customers satisfied with their current DHA accommodation

Value for money for clients

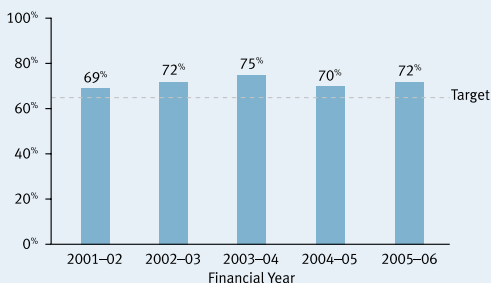
OBJECTIVE: PROVIDE VALUE FOR MONEY FOR CLIENTS

KEY PERFORMANCE INDICATORS	2005-06 TARGET	2005-06 ACHIEVEMENTS		PAGE REFERENCE
Vacancy level in Effective markets ¹	< 3.5 per cent	The vacancy rate in Effective markets was 3.2 per cent	⬆️	30
Vacancy level in Limited markets ²	< 4.0 per cent	The vacancy rate in Limited markets was 3.4 per cent	⬆️	30
Percentage change in DHA rents versus change in market rents	Not to exceed market rents by > 10 per cent of the market increase ³	6.8 per cent change in DHA rents versus a 6.7 per cent change in REIA indices ⁴	⬆️	29
Percentage of pre-allocations	65 per cent	72 per cent of families were pre-allocated a home before relocating	⬆️	7
Key strategies and activities				
Provide cost-effective management of stock within agreed parameters.				x, 30
Maintain an effective and commercial working relationship with clients.				24-26

⬆️ BETTER THAN TARGET ✓ ON TARGET ⬇️ TARGET NOT MET

- 1 Effective (and deemed effective) markets are those locations that are big enough to support a competitive market with DHA's activities not materially affecting them. Effective markets include Sydney, Melbourne, Darwin, Townsville, Brisbane, Canberra, Adelaide and Perth.
- 2 Limited markets are those locations that are not big enough to support a competitive market and in which DHA activity could adversely affect the market. Limited markets include Cairns, Tindal, Hunter, Nowra, Wagga Wagga, Wodonga, Rural Victoria, Hobart and Rural Western Australia.
- 3 As measured by Real Estate Institute of Australia (REIA) indices weighted to DHA's portfolio.
- 4 This is a good result, having regard to the improvement in the overall quality of the DHA portfolio during the year resulting from the large number of older properties replaced with newer stock.

DHA's pre-allocation of properties



72%
of families were pre-allocated
a home before relocating

Meet shareholder requirements

OBJECTIVE: MEET AGREED SHAREHOLDER FINANCIAL REQUIREMENTS

KEY PERFORMANCE INDICATORS	2005-06 TARGET	2005-06 ACHIEVEMENTS		PAGE REFERENCE
Return on Equity (ROE)	4.8 per cent	6.1 per cent	↑	28
Operating Result	\$100.4 million	\$100.6 million	✓	ix, 28, x
Debt:Equity ratio (including off-balance sheet debt) ¹	58.3 per cent	60.3 per cent	↑	31
DHA ownership (including off-base properties and excluding inventory ²)	≤ 19.3 per cent	18.4 per cent	↑	30
DHA ownership (including off-base properties and inventory ²)	≤ 26.9 per cent	25.0 per cent	↑	30
Annual dividends and tax equivalent dividends	Dividends of \$74.3 million, including \$35.2 million in tax equivalent payments ³	Dividends of \$76.8 million, including \$36.9 million in tax equivalent payments ³	↑	30-31

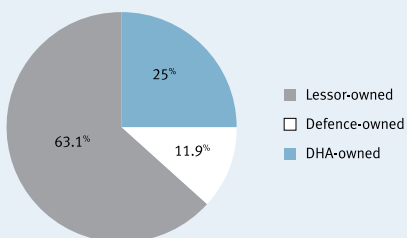
Key strategies and activities

Structure property portfolio to optimise returns and capital employed, consistent with meeting the Provisioning Schedule and maintaining core stock.	x, 30
Develop and implement an appropriate debt and equity structure.	x, 31
Improve DHA's ability to manage profitability in all of its business lines.	28, 31

↑ BETTER THAN TARGET
 ✓ ON TARGET
 ↓ TARGET NOT MET

- Gearing is the proportion of debt and other financial commitments compared with equity. It includes commitments for rental streams to be paid to DHA Lessors.
- Inventory properties are those properties held by DHA with the intention of selling via the Sale and Leaseback Program.
- Dividends accrued from profit made in 2005-06, distinct from those dividends paid in 2005-06.

DHA ownership



Effective and innovative management – business partnerships

OBJECTIVE: ATTRACT AND RETAIN LESSORS AND OTHER INVESTORS

KEY PERFORMANCE INDICATORS	2005–06 TARGET	2005–06 ACHIEVEMENTS	PAGE REFERENCE
Lessor satisfaction	90 per cent	93 per cent of lessors were satisfied with the current lease of their property to DHA ↑	36
		93 per cent were satisfied with the management of their leased property ↑	36

Key strategies and activities			
Provide attractive, appropriately-priced and well-managed investment options to maintain the Sale and Leaseback Program.			ix, 36–37
Maintain a responsive, high standard of service to lessors and potential lessors.			36
Attract new forms of investment in DHA.			ix, 36–39, 40

↑ BETTER THAN TARGET
 ✓ ON TARGET
 ↓ TARGET NOT MET

Effective and innovative management – business partnerships

OBJECTIVE: POSITION DHA FOR EMERGING BUSINESS OPPORTUNITIES

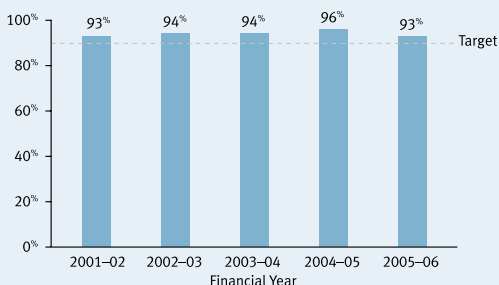
KEY PERFORMANCE INDICATORS	2005–06 TARGET	2005–06 ACHIEVEMENTS	PAGE REFERENCE
Living In Accommodation (LIA) tender consortium established	By date of tender or December 2005 – whichever is earlier	The Single LEAP consortium was established and DHA submitted its tender to the Department of Defence ✓	ix, 42
Proposal for off-base Singles pilot to the Department of Defence	By October 2005	A trial for providing off-base Singles accommodation commenced in Darwin in December 2005 ✓	ix, 41

Key strategies and activities			
Prepare to participate in LIA tenders when called.			42
Demonstrate to the Department of Defence the merits of including off-base Singles accommodation in the Defence Housing Forecast ¹ .			41
Increase revenue by expanding client base using existing capacity and capabilities, if legislation permits.			ix, 40

↑ BETTER THAN TARGET
 ✓ ON TARGET
 ↓ TARGET NOT MET

1 The Defence Housing Forecast is a formal statement by the Department of Defence of the housing provisioning required for the year. It forms the basis for DHA's provisioning schedule and capital program.

Lessor satisfaction with the lease of their property



93%
 of lessors were satisfied with the current lease of their property to DHA

Effective and innovative management – people and culture

OBJECTIVE: ATTRACT, RETAIN AND DEVELOP COMPETENT, MOTIVATED AND CUSTOMER-FOCUSED STAFF

KEY PERFORMANCE INDICATORS	2005–06 TARGET	2005–06 ACHIEVEMENTS		PAGE REFERENCE
Percentage of staff turnover	<14 per cent	11.4 per cent	⬆️	48
Percentage of customers satisfied with customer service ¹	80 per cent	81 per cent	⬆️	12–13
Key strategies and activities				
Maintain a workplace environment consistent with being an employer of choice.				44–49
Promote and maintain an external and internal service culture in a commercial environment.				x, 49, 62
			⬆️ BETTER THAN TARGET ✓ ON TARGET ⬇️ TARGET NOT MET	

1 Satisfaction with customer service measured as a weighted average from DHA's relocation and maintenance survey.

Effective and innovative management – operational excellence

OBJECTIVE: OPERATE COMMERCIALY, EFFICIENTLY AND INNOVATIVELY

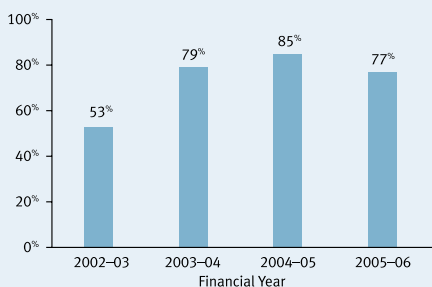
KEY PERFORMANCE INDICATORS	2005–06 TARGET	2005–06 ACHIEVEMENTS		PAGE REFERENCE
Services Agreement KPIs met	100 per cent	92 per cent ¹	⬇️	24
Relocation Services Agreement KPIs met	100 per cent	97 per cent ²	⬇️	24
Good working relationship with clients	Satisfactory assessment in annual survey	77 per cent of the Department of Defence respondents were satisfied with the working relationship	⬆️	24
		83 per cent of the Australian Customs Service (ACS) respondents were satisfied with the working relationship	⬆️	26
Times interest cover ³	4.32	5.44	⬆️	31
Key strategies and activities				
Execute the financial and operational plans.				28
			⬆️ BETTER THAN TARGET ✓ ON TARGET ⬇️ TARGET NOT MET	

1 70 per cent of KPIs were fully achieved in every period measured. The remainder were achieved in most months measured.

2 80 per cent of KPIs were fully achieved in every period measured. The remainder were achieved in most months measured.

3 Times interest cover is the measure of DHA's ability to meet debt commitments from an operating profit.

Overall satisfaction with client service



77%
client satisfaction

DHA HIGHLIGHTS AND EVENTS

JULY 2005

DHA joins Customer Service Institute of Australia

In July 2005, DHA became a corporate member of the Customer Service Institute of Australia.



Hector Malacaria, Executive Director, CSIA and Michael Del Gigante, Managing Director, DHA.

AUGUST 2005

Dawes Terrace officially completed

On 4 August 2005, a \$12 million, 38-home development, 'Dawes Terrace' in Queanbeyan, NSW, was officially opened by the Parliamentary Secretary to the Minister for Defence, the Hon Teresa Gambaro MP.

Land purchase – Bruce, ACT

On 8 August, the Parliamentary Secretary to the Minister for Defence, the Hon Teresa Gambaro MP, announced DHA's purchase of undeveloped land in Bruce, ACT, at a cost of \$6.2 million.



Keith Lyon, the Hon Teresa Gambaro MP, Parliamentary Secretary to the Minister for Defence and John Hindmarsh, Managing Director, Hindmarsh.

Home renovation award

On 22 August, DHA received a home renovation award in the Territory Construction Association's Building and Construction Excellence Awards, held in the NT.

SEPTEMBER 2005

Work starts – 50 new homes in Brisbane

On 19 September 2005, the Parliamentary Secretary to the Minister for Defence, the Hon Teresa Gambaro MP, officiated at a ground-breaking ceremony in McDowall, Brisbane. This marked the start of construction of a 50-home, \$17.5 million DHA development.



The Hon Peter Jones AM, Chairman, DHA, Brigadier Dave Chalmers, 7 Brigade, Brisbane and the Hon Teresa Gambaro MP, Parliamentary Secretary to the Minister for Defence.

NOVEMBER 2005

Singles accommodation trial starts

DHA reached an agreement with the Department of Defence to conduct an eighteen-month trial for the provision of off-base accommodation for Single ADF members in Darwin, NT.



Michael Del Gigante, Managing Director, DHA and Lindsay Kranz, Assistant Secretary Personnel Services, National Operations Division, Department of Defence.

New homes handed over in Wagga Wagga

On 24 November 2005, Federal Member for Riverina, Ms Kay Hull MP, officiated a ceremony to welcome an ADF family into one of seven newly-constructed DHA homes in Wagga Wagga, NSW.



Ms Kay Hull MP, Federal Member for Riverina and Corporal Mark Tarrant and family.

JANUARY 2006

Donation to support Canberra memorial

On 17 January 2006, DHA donated \$10,000 to the Canberra Bushfire Memorial in memory of the victims of the Canberra bushfires of 2003.

FEBRUARY 2006

Defence members welcomed to Canberra

On 12 February 2006, DHA sponsored and participated in the Defence Families of Australia 'Belong o6' event, welcoming ADF members and their families to Canberra.

MARCH 2006

Work starts on stage one of Lyons

On 15 March 2006, a ground-breaking ceremony marked the official launch of the first stage of development of the new Darwin suburb of Lyons. Around 300 new DHA homes will be built in Lyons. This development is a joint venture between DHA and Canberra Investment Corporation Ltd (CIC). The ceremony was attended by the Parliamentary Secretary to the Minister for Defence, Senator the Hon Sandy Macdonald.



The Hon Peter Jones AM, Chairman, DHA, David Tollner MP, Federal Member for Solomon, Senator the Hon Sandy Macdonald, Parliamentary Secretary to the Minister for Defence, the Hon Clare Martin MLA, NT Chief Minister and Col Alexander, Managing Director, CIC Ltd.

APRIL 2006

Landmark \$100 million sale to institution

On 4 April 2006, DHA sold \$99.6 million worth of residential property to Westpac Funds Management Limited, on a leaseback basis.



Sean McElduff, General Manager Specialised Capital Group, Westpac, the Hon Gary Nairn MP, Special Minister of State, the Hon Peter Jones AM, Chairman, DHA, Michael Del Gigante, Managing Director, DHA and Brian Acworth, Head of Government Business, Westpac.

Support for flood-devastated Katherine

On 13 April, DHA donated \$5,000 to the Katherine community to assist with flood relief.

MAY 2006

Amendments to DHA Act

On 22 May 2006, legislative amendments to the *Defence Housing Authority Act 1987* received Royal Assent.

DHA recognised for reporting excellence

On 2 May, DHA received a gold award in the *Commonwealth Authorities and Companies Act* category at the Institute of Public Administration Australia Annual Report Awards in Canberra.



Michael Del Gigante, Managing Director, DHA, Kierra-Jade Sanders, Communication and Media Officer, DHA, Gary Kent, Company Secretary, DHA and Adam Davey, Communication and Media Manager, DHA.

DHA receives customer service certification

DHA was certified against the Customer Service Institute of Australia's International Customer Service Standard.

DHA submits a proposal to the Department of Defence for the Single LEAP Project

On 12 May, DHA in partnership with Bovis Lend Lease and Transfield Services, submitted a proposal to the Department of Defence for the delivery of on-base Single ADF member accommodation.

JUNE 2006

New Services Agreement with the Department of Defence

DHA negotiated a new Services Agreement on Housing and Related Requirements with the Department of Defence, to take effect from 1 July 2006.



Michael Del Gigante, Managing Director, DHA and Alan Henderson, Deputy Secretary, Department of Defence.

DHA hosts Defence Families of Australia Conference

On 20 June, DHA hosted guests for one day of the Defence Families of Australia Conference.



Senator the Hon Sandy Macdonald, Parliamentary Secretary to the Minister for Defence with ADF member WO2 Troy Grimes and Karen Damstra-Grimes.

DELIGHT THE CUSTOMER



Services to customers	2
DHA customer service centres	14

SERVICES TO CUSTOMERS

The Defence Housing Authority provides a range of housing and relocation services to our customers – Australian Defence Force (ADF) members and their families. We aim to delight our customers through:

- the provision of homes that anticipate customers' expectations and are consistent with community standards for quality, amenity and choice;
- the delivery of pro-active and personalised relocation services; and
- tenancy management services, including responsive maintenance of properties under DHA management, that reflect Department of Defence policy and meet customer needs.

Meeting the housing needs of our ADF members

Over the past 18 years, DHA has substantially increased the quality and diversity of housing available to ADF members and their families. As well as the traditional detached family homes, we provide townhouses, apartments and courtyard housing to better suit the differing needs of Defence families. Townhouses, in a variety of styles, have been developed for ADF members who desire minimal lawn and garden maintenance. Apartments with shared recreational amenities and undercover parking have been developed or acquired in choice inner city locations. Courtyard homes, which are well suited to smaller allotments, particularly in inner suburban areas, are also available.

Construction and development of our housing

DHA pursues a comprehensive construction and acquisition program to meet Department of Defence housing requirements, with an expenditure of approximately \$1.4 billion planned over the next three years.

In 2005–06, construction activity on behalf of DHA occurred across most parts of Australia with 460 houses completed on and off ADF bases at a cost of \$158.5 million.

In May–June 2006, a survey was conducted to measure the satisfaction of ADF members living in properties constructed in the previous financial year. Overall, 93 per cent of respondents indicated that they were satisfied with their newly-constructed home.

The respondents were most satisfied with the proximity of the home to local shops and other community facilities and with the external colour scheme of the property.

970

homes delivered through construction and acquisition.

93%

satisfaction with newly-constructed homes.

92%

satisfaction with newly-acquired homes.

Respondents were least satisfied with the amount of external and internal storage space and the amount of cupboard space in the kitchen. This is being addressed in the design of new DHA housing constructions in the future.

CLARENCE JEFFRIES ESTATE, ADAMSTOWN, NEWCASTLE, NEW SOUTH WALES

The final stage of the Clarence Jeffries Estate at Adamstown, Newcastle, was completed in June 2006, providing a total of 15 three-bedroom ensuite townhouses and 53 detached four-bedroom ensuite houses. The estate offers housing for ADF members in close proximity to the Newcastle Central Business District, with good access to workplaces and local community services.

The Clarence Jeffries Estate was named in honour of a local World War I hero and recipient of the Victoria Cross, Captain Clarence Jeffries.

GRACE WILSON ESTATE, MCDOWALL, BRISBANE, QUEENSLAND

In May 2005, Federal Parliament approved DHA's \$17.5 million proposal to build 50 new homes for ADF members and their families in McDowall, Brisbane. DHA has consulted with the community and worked closely with the Brisbane City Council in designing the development. The project has been named Grace Wilson Estate, commemorating a Brisbane war veteran. Grace Wilson was a member of the Australian Army Nursing Service and served in both World War I and World War II.

In September 2005, a ground-breaking ceremony was conducted to mark the start of construction of the Grace Wilson Estate. In March 2006, subdivision works were completed. Construction of stages 1 and 2 is currently underway and the development is scheduled for completion in March 2007.

FAIRVIEW RISE, IPSWICH, QUEENSLAND

In June 2006, Federal Parliament approved the construction of 162 new DHA homes at Ipswich, Queensland, at a cost of \$50.7 million.

This development is located at Fairview Rise and is a convenient distance to RAAF Base Amberley and the Ipswich City Centre. The development will provide much needed, high quality housing for ADF members and their families.

Stage 1 civil works are to commence in August 2006, with Stage 2 civil works scheduled to begin in March 2007. Housing construction is expected to start in February 2007, with completion due in June 2009.

LYONS, DARWIN, NORTHERN TERRITORY

In March 2006, the first stage of the new Darwin suburb of Lyons, to be developed through a joint venture between DHA and the Canberra Investment Corporation Ltd (CIC), was officially launched, with civil works beginning in May 2006.

Of the 650 fully-serviced residential land allotments, at least 300 blocks located throughout the development will be available for ADF members and their families, and will feature state-of-the-art houses specifically designed for Darwin's tropical climate. The remaining blocks will be made available to the public.

The local economy in Darwin will benefit greatly from this \$41 million development by way of increased employment and DHA's commitment to using local contractors wherever possible.

BRUCE, CANBERRA, ACT

In June 2005, DHA purchased 52 blocks of land in Bruce, Canberra. The land is located within a mixed-use, multi-generational private development currently under construction. The acquisition is part of DHA's land acquisition program in the Canberra/Queanbeyan region, which includes 350 serviced blocks of land to be acquired under a three-year agreement with the ACT Land Development Agency. These land purchases provide the basis of DHA's housing construction program in the ACT/Queanbeyan region, which is being undertaken to accommodate ADF personnel located at the new Joint Operations Command Headquarters at Bungendore, NSW, and other local Defence establishments.

The DHA housing precinct at Bruce is scheduled for completion by late 2007.

On-base construction and refurbishment

The construction of 80 new homes at Puckapunyal, Victoria, commenced in August 2005 at an estimated cost of \$19.6 million. These homes have been made available to ADF members progressively from April 2006, with all 80 homes expected to be completed by November 2006. The 80 new homes follow an earlier 20-home development in Puckapunyal, completed by DHA in early 2005.

The upgrade of Defence housing at RAAF Base Tindal in the Northern Territory continued in 2005–06 under an \$18 million major refurbishment program. This program includes the upgrading of amenities to provide additional living/family areas, ensuites, new kitchens and internal repainting.

Refurbishment of homes continued during the year in the Wattle Grove area, adjoining the Holsworthy Army base, with work at 53 homes being completed so far.

DHA WINS HOME RENOVATION AWARD

In August 2005, DHA won an award in the Territory Construction Association's (TCA) Building and Construction Excellence Awards.

TCA, a peak building body in the Northern Territory, conducts these awards annually to recognise organisations achieving excellence in the construction industry. Awards are presented for civil, commercial and residential construction, contracting, remote construction and energy efficiency.

DHA was recognised in the 'Home Renovation up to \$250,000' category for the RAAF Base Tindal upgrade project.

Acquisition of housing

DHA acquires existing properties from owners and builders to supplement its program of housing construction and direct leasing. All properties obtained in this way must be of a high standard and comply with local community standards and Department of Defence requirements.

During 2005–06, DHA acquired 510 properties at a cost of \$212 million. This did not meet the corporate plan target due to the difficulty in locating suitable properties, within valuation and budgetary constraints, in a number of regions.

DHA's newly-acquired home survey measures ADF members' satisfaction with residences that have been spot-purchased or leased directly to DHA. Overall, 92 per cent of respondents living in a newly-acquired property were satisfied with the property.

The aspects of their home with which respondents were most satisfied include the suitability of the local suburb, the internal colour scheme of the home and the extent to which the residence compared with houses in the same community. Respondents were less satisfied with the amount of external and internal storage and the amount of cupboard space in the kitchen.

Sale of Surplus Housing

DHA regularly reviews the quality of its existing stock as a key element in its asset management strategy. This helps ensure that ADF members and their families are housed with an appropriate level of amenity.

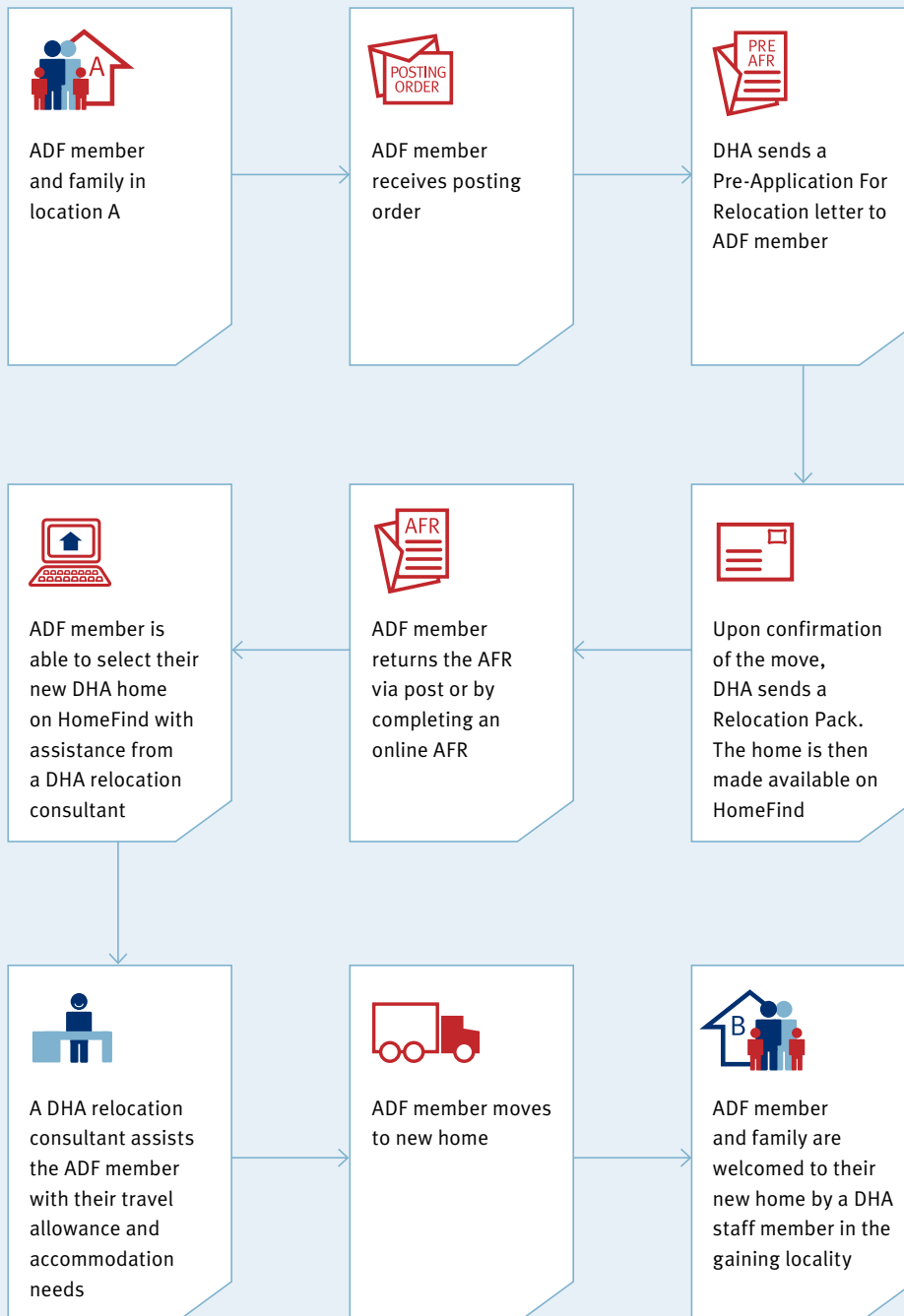
DHA's housing stock is identified as surplus where it:

- no longer meets the operational requirements of the Department of Defence;
- is positioned in an unsuitable location or is of an inadequate standard; or
- is at the end of its economic life.

The sale of surplus properties is carefully managed to secure the best possible market price. During 2005–06, DHA sold 327 surplus properties, generating revenue of \$97.6 million.



THE RELOCATION PROCESS



DHA relocation services

DHA assumed responsibility for relocations from the Department of Defence in 2001. In 2005–06, DHA administered 32,254 applications for relocation. This included Defence-funded (24,131), member-initiated and DHA-funded moves.

Prior to the relocation, DHA staff assist the ADF member in selecting a DHA home and with their travel allowance and accommodation needs. Each move is organised locally by a DHA Case Manager based in the Housing Management Centre (HMC) in the gaining locality (the locality to which a family is moving). This ensures that members and their families are relocated efficiently, with a minimum of inconvenience and in accordance with Department of Defence requirements.

HomeFind – selecting a property online

HomeFind is DHA's online housing selection tool. It allows ADF members and their families to search for a suitable DHA home in the location to which they are being posted well in advance of their move.

HomeFind is an interactive website displaying details of all DHA houses available for occupancy in each location. The houses are displayed by ADF members' entitlement categories. The information provided with respect to each house includes internal and external photographs, a scale floor plan and a description of the fittings in the residence. The floor plan of each room can be enlarged and printed to allow families to plan furniture layout.

DHA issues each customer with a HomeFind login ID after they submit their Application For Relocation (AFR). When a family has found their preferred home, they are able to reserve it online. Early identification of a new home enhances the opportunities for door-to-door removals which reduces the Department of Defence's temporary accommodation and storage costs. It also allows families to make timely decisions in relation to matters such as selection of schools, spouse employment and child care.

During 2005–06, HomeFind enabled 72 per cent of ADF members to pre-select their homes before relocating.

An improvement in 2005–06 was a new information gathering process (the Pre-AFR letter). The Pre-AFR letter allows families to advise a probable date for their move very early in the relocation process. Their current residence can then be placed on HomeFind for consideration by other families much earlier than was previously possible. This means that more ADF families are able to confirm accommodation in their new locality prior to their relocation, thereby minimising any stress and cost to their family.

ONLINE APPLICATION FOR RELOCATION (AFR)

The introduction of an electronic AFR is planned for 2006–07. The AFR is the key document in any relocation. It provides the basis for removal, accommodation planning and the calculation of entitlements. Many families find the existing paper-based form inconvenient, with completion of a new form required, on average, every two to three years. The AFR form is often filled out incompletely, necessitating follow up by DHA staff.

The electronic AFR can be completed and submitted online. It can also be saved for future use so that only changes need to be entered during subsequent relocations. This will be more convenient for our customers, saving time and reducing paperwork. The online AFR will also be a 'smart form' which cannot be submitted until all the essential details have been recorded.

DHA WELCOMES YOU HOME

Upon arrival at their new home, ADF members and their families are welcomed by a DHA staff member from the local HMC.

The staff member provides the ADF member with a 'welcome kit' which includes the tenancy agreement, a DHA tenant handbook outlining the rights and responsibilities of the ADF member and useful information and contact numbers for their new locality. The member is then able to complete the necessary forms in the comfort of their new home, thereby avoiding the need for the member to visit the HMC during what can be a stressful relocation process.

During 2006–07, we will be conducting a national survey of our customers to assess reaction to the welcome kits offered in each region. This will inform the development of a standardised kit to be introduced nationally.



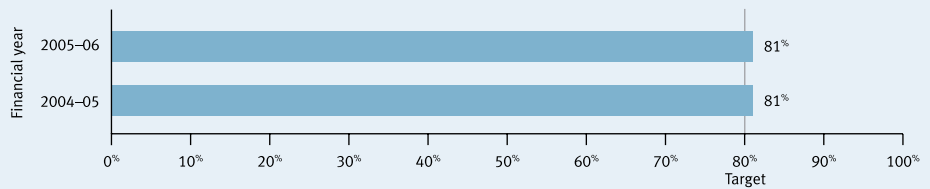
“Having served in the Air Force for over 30 years, my family and I have moved around a lot. Over the years we have seen a significant improvement in DHA’s removal process, and the support and understanding of DHA staff have helped make our moving experiences so much smoother.”

Customer satisfaction

Through DHA's quarterly relocations survey, we measure customer satisfaction with the total relocation process, including the removal, itinerary management and the finding and occupation of a DHA home.

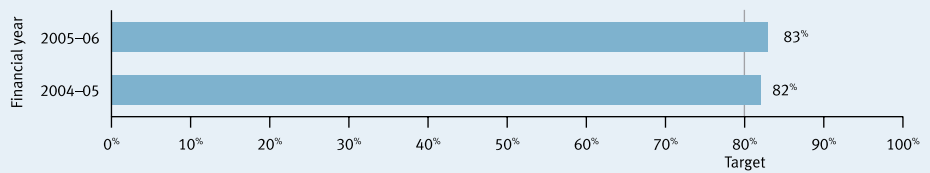
During the year, 81 per cent of respondents indicated that they were satisfied with DHA's relocation services¹. This meant that DHA exceeded the target of 80 per cent for customer satisfaction with relocation services.

Customer satisfaction with total relocation experience



DHA's annual tenant survey measures ADF member satisfaction with their current Service Residence² accommodation. In 2005-06, 83 per cent of respondents were satisfied with their current accommodation.

Customer satisfaction with current DHA accommodation



- 1 Result excluding ADF member satisfaction with their removal, a service provided by contractors.
- 2 Service Residence is a DHA-managed house provided to ADF members with dependants.

Communicating with our customers

DHA communicates with its customers through a mix of general and targeted approaches, including face-to-face contact. A range of information materials are used to inform ADF members and their families about available DHA services and how to access them. To this end, we maintain a series of hard copy publications and online information products.

Printed DHA publications are distributed via HMCs and through our stakeholder groups such as Defence Families Australia, Defence Special Needs Support Group and the Defence Community Organisation. Information products are also available on our website and distributed to our customers via email.

Fast Connect

Fast Connect is a free utility disconnection and connection service for telephone, electricity and gas. The service is purchased from approved suppliers on behalf of the ADF member by DHA.

Through Fast Connect, ADF members are given a choice of utility providers and may also select internet, Pay TV and message bank services. Another benefit of this service is that members can receive early advice of their new home telephone numbers, so they can let their family and friends know their contact details in advance. To date, 9,873 of our ADF members have registered for the Fast Connect service.

Defence Homeowner Scheme

Defence HomeOwner is a subsidised home loan scheme that provides assistance to serving and former ADF members under the *Defence Force (Home Loans Assistance) Act 1990*.

DHA manages the Scheme on behalf of the Department of Defence. Our role is to handle inquiries about the benefits available under the Scheme, assess eligibility and manage the subsidy arrangements.

Accessing the Scheme involves a two-stage process: applicants first apply for an Entitlement Certificate which certifies their general eligibility for benefit and, when they wish to take up the loan, they apply for the subsidy payment.

During the year, 1,724 Applications for Entitlement Certificates were received by DHA and 1,674 Entitlement Certificates were issued. The number of Entitlement Certificates issued was slightly lower than last year. There were 1,184 Applications for Payment of Subsidy received, 1,165 of which were approved.

There were on average in excess of 6,700 subsidy recipients each month and, over the course of the year, a total of \$9.868 million in subsidies were paid.

Property management

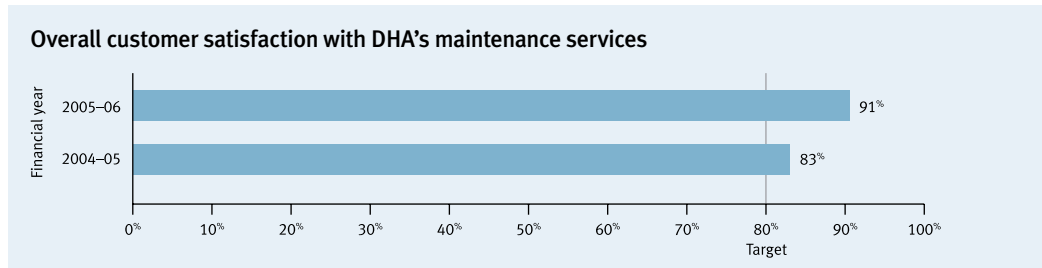
MAINTENANCE

DHA provides a comprehensive and responsive maintenance service to ADF members living in DHA residences. This includes the provision of a 24-hour telephone emergency maintenance service.

A maintenance survey is conducted on a random sample of completed work orders to measure the ADF member's satisfaction with DHA's customer service, the contractor's performance and their overall satisfaction with the maintenance work.

Overall, DHA has demonstrated a sound performance in the provision of maintenance services, with the national customer satisfaction level remaining in excess of 91 per cent during 2005–06, compared with 83 per cent in 2004–05.

Where possible, DHA uses local contractors for the provision of repairs and maintenance services. Contractors are selected on a value-for-money basis and are sourced primarily from a standing DHA Residential Maintenance Service Panel. DHA's contractor panel is due to be re-tendered in a public tender process in the latter part of 2006.



“When our house was flooded, DHA was extremely prompt and helpful in arranging temporary accommodation, a housing solution and relocation. Staff were extremely helpful and pro-active and we were moved into a new property within two days.”

ADF member, Canberra

TENANT MANAGEMENT

Our HMC staff liaise regularly with ADF members on tenancy-related matters. This includes welcoming tenants to their new homes, helping them to settle into their locality and advising them of their responsibilities during their occupation of and on their departure from the property.

During 2005-06, significant emphasis was placed on continuous improvement of HMC operational procedures to improve our service to ADF tenants and enhance the relationship between DHA and its customers. New Housing Management Instructions (HMIs) have been agreed with the Department of Defence. The HMIs will provide staff with guidance in relation to operational procedures, responsibilities, fees and charges and the fundamentals of portfolio housing management. This will ensure that DHA staff are equipped to provide our customers with quick and accurate advice.

32,254
ADF members
used DHA relocation
services in 2005-06.

81%
satisfaction with
DHA's relocation
services.

91%
satisfaction rate with
DHA's maintenance
service.

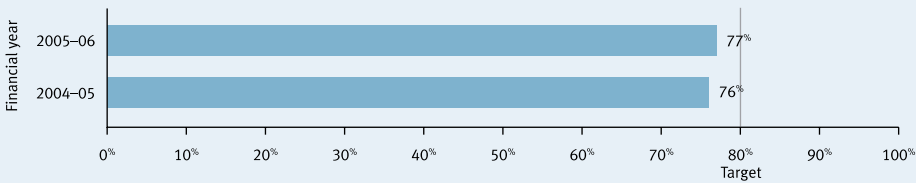
Our Customer Service

DHA is committed to providing quality housing and relocation services for members of the ADF and their families. Our Customer Service Charter was developed in consultation with DHA staff and key stakeholders. It sets standards of customer service consistent with our motto 'the home of service'. We have in place a clear dispute resolution process to ensure that complaints are dealt with in a fair and timely manner. Feedback from customers is encouraged to help us continuously improve our customer service standards.

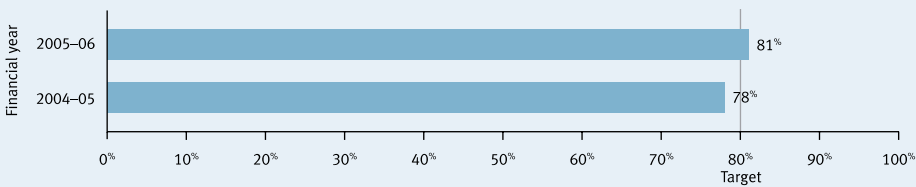
Through the relocation and maintenance surveys, we measure ADF members' satisfaction with DHA's customer service and staff knowledge.

In 2005–06, 77 per cent of relocation survey respondents were satisfied with the knowledge exhibited by DHA staff. The weighted average of ADF members' satisfaction with DHA's customer service during their relocation and with DHA's customer service regarding maintenance was 81 per cent.

Customer satisfaction with staff knowledge



Customer satisfaction with customer service



Customers can also provide feedback by calling DHA's Customer Service Line – 1800 249 711, by sending an email to clientservices@dha.gov.au or by writing to the Customer Relations Manager, Defence Housing Authority, 26 Brisbane Avenue, Barton ACT 2600.

Copies of our Customer Service Charter can be obtained from any DHA office or from the DHA website: www.dha.gov.au



DHA CERTIFIED CUSTOMER SERVICE ORGANISATION

In July 2005, DHA joined the Customer Service Institute of Australia (CSIA) – the national peak body for the customer service industry. Membership of the CSIA offers DHA a range of benefits, including the opportunity for a third party evaluation of customer service through certification against an International Customer Service Standard (ICSS). Following an audit by the CSIA licensed assessors, DHA achieved certification in June 2006, in recognition of the strong customer focus within the organisation.

In assessing DHA's performance, the CSIA has helped us recognise potential opportunities for improvements in customer service. Continued engagement with the CSIA will also provide opportunities for benchmarking, networking and training to help DHA further improve its customer service.

“I would like to pass on my sincere thanks to DHA and the staff in the Sydney HMC. In experiencing a crash posting from Canberra to Sydney – at 24 hours notice – the staff were most helpful and made the moving process seem relatively easy under the circumstances. They were invariably professional, courteous, supportive, sympathetic, flexible and extremely knowledgeable. It is my opinion that the staff have a genuine concern for the people they assist, and to date I consider myself fortunate with the support I have received from DHA”.

Senior ADF member, Sydney

81%

satisfaction with DHA's customer service.

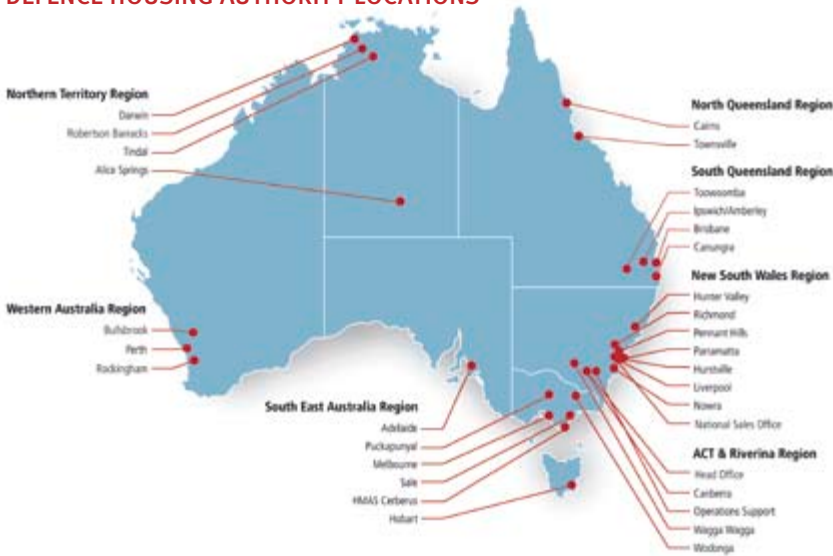


Received Customer Service Institute of Australia certification.

CUSTOMER SERVICE CENTRES

The Defence Housing Authority has 32 Housing Management Centres (HMCs) and other local offices located in seven regions across Australia. We provide face-to-face service in the vicinity of most major military establishments, which enables us to provide effective support to our Australian Defence Force members.

DEFENCE HOUSING AUTHORITY LOCATIONS



Sharon
Wilson
(NT)

Bob
Haylett
(N.QLD)

Bronwyn
Kennedy
(S.QLD)

Matt
Chambers
(NSW)

Janine
Leonard
(ACT)

Jeff
Davey
(Riverina)

Bryan
Slattery
(S.E Aust)

Phil
Smith
(WA)



Northern Territory Region

DHA currently employs 59 staff in the Northern Territory Region. Staff are located at four offices: Darwin HMC, Alice Springs Office, Tindal HMC and the Robertson Barracks office.

DHA manages approximately 2,240 homes on and off-base in the Northern Territory region.

Due to the excellent supply of land, DHA's housing stock in the Northern Territory consists predominantly of single houses, both ground level and elevated, with private front and rear gardens. The majority of these homes have carports in preference to garages, as these are more suited to the tropical lifestyle.

DHA also provides a number of two-storey townhouses and high-rise apartments, mainly surrounding or within close proximity to the Darwin Central Business District.

The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

NORTHERN TERRITORY REGION		
	Darwin	Tindal
Purchases		
Newly-acquired houses	39	0
Newly-constructed houses	0	0
Sales		
Sold and leased back (SLB Program)	54	0
Disposals (sale of surplus properties)	7	9
Leases		
Direct leases	37	0
Lease options ¹	62	10
Lease conversions ²	9	0
Operations		
Relocations administration	2,794	365
Relocations during peak (Nov–Jan)	1,200	172
Housing allocations	2,001	239
Maintenance orders (tenant-initiated) ³	9,587	2,860
Housing stock at 30 June 06		
DHA-owned	185	117
Leased from private investors	854	146
On-base	742	193
Other managed stock (Australian Customs Service)	3	0

¹ Lease options is when DHA exercises an option to increase/decrease the term of a lease.

² Lease conversions is the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 14 August 2005 – 30 June 2006.

North Queensland Region

DHA currently employs 42 staff in the North Queensland Region. Staff are located at two offices: Townsville HMC and Cairns HMC.

DHA manages approximately 1,858 homes on and off-base in the North Queensland region.

The vast majority of DHA homes in North Queensland are free-standing. All older sub-standard housing stock has been sold and replaced with newer dwellings.

The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

NORTH QUEENSLAND REGION		
	Cairns	Townsville
Purchases		
Newly-acquired houses	3	53
Newly-constructed houses	0	32
Sales		
Sold and leased back (SLB Program)	6	109
Disposals (sale of surplus properties)	7	80
Leases		
Direct leases	9	12
Lease options ¹	0	63
Lease conversions ²	0	12
Operations		
Relocations administration	539	2,857
Relocations during peak (Nov–Jan)	207	1,209
Housing allocations	370	2,028
Maintenance orders (tenant-initiated) ³	942	5,906
Housing stock at 30 June 2006		
DHA-owned	21	481
Leased from private investors	221	1,117
On-base	0	7
Other managed stock (Australian Customs Service)	0	11

¹ Lease options – the exercise by DHA of options to increase/decrease the term of a lease.

² Lease conversion – the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 14 August 2005 – 30 June 2006.

South Queensland Region

DHA currently employs 60 staff in the South Queensland Region. Staff are located at four offices: Brisbane HMC, Canungra Office, Ipswich HMC, and Toowoomba HMC.

DHA manages approximately 2,027 homes on and off-base in the South Queensland region.

Homes in Brisbane's newer suburbs tend to feature brick and tile housing similar to other developments around Australia. DHA also has a range of townhouses in suburbs closer to the city and apartments on the city fringe.

In Toowoomba much of the older housing stock has been sold and replaced with newer dwellings. The majority of houses are off-base, one-storey, freestanding houses, with front and back-yards.

The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

SOUTH QUEENSLAND REGION			
	Brisbane	Ipswich	Toowoomba
Purchases			
Newly-acquired houses	89	7	5
Newly-constructed houses	58	77	6
Sales			
Sold and leased back (SLB Program)	60	56	8
Portfolio Sale (Westpac)	32	0	0
Disposals (sale of surplus properties)	16	42	2
Leases			
Direct leases	6	0	0
Lease options ¹	24	4	8
Lease conversions ²	1	0	0
Operations			
Relocations administration	2,377	789	613
Relocations during peak (Nov–Jan)	1,126	350	267
Housing allocations	1,699	512	406
Maintenance orders (tenant-initiated) ³	2,802	1,084	853
Housing stock at 30 June 2006			
DHA-owned	315	178	73
Leased from private investors	788	370	214
On-base	83	0	0
Other managed stock (Australian Customs Service)	0	0	0

¹ Lease options – the exercise by DHA of options to increase/decrease the term of a lease.

² Lease conversion – the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 14 August 2005 – 30 June 2006.

New South Wales Region

DHA currently employs 140 staff in the New South Wales Region.

Staff are located at Hunter Valley, Hurstville, Liverpool, Nowra, Parramatta, Pennant Hills and Richmond.

DHA manages approximately 5,212 homes on and off-base in the region. 3,762 of these homes are in the Sydney district.

In Sydney the majority of housing is off-base. Many of the houses have been replaced by newer dwellings and DHA has been acquiring more medium density-style housing to increase the range of housing choice in Sydney. Freestanding houses in Sydney are mostly located near Richmond and Liverpool.

DHA manages approximately 1,029 properties in the Hunter Valley – an area which has experienced substantial growth in previous years. In Nowra, DHA manages approximately 421 homes – most of which are new stock or purpose-built housing.

The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

NEW SOUTH WALES REGION			
	Sydney	Hunter Valley	Nowra
Purchases			
Newly-acquired houses	134	22	11
Newly-constructed houses	3	96	0
Sales			
Sold and leased back (SLB Program)	28	77	7
Portfolio Sale (Westpac)	95	0	0
Disposals (sale of surplus properties)	58	9	6
Leases			
Direct leases	56	19	7
Lease options ¹	244	76	4
Lease conversions ²	81	5	0
Operations			
Relocations administration	6,547	2,068	875
Relocations during peak (Nov–Jan)	2,467	812	283
Housing allocations	4,817	1,460	509
Maintenance orders (tenant-initiated) ³	8,237	2,339	660
Housing stock at 30 June 2006			
DHA-owned	1,237	268	76
Leased from private investors	2,474	761	283
On-base	51	0	62
Other managed stock (Australian Customs Service)	0	0	0

¹ Lease options – the exercise by DHA of options to increase/decrease the term of a lease.

² Lease conversion – the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 14 August 2005 – 30 June 2006.

Australian Capital Territory and Riverina Region

DHA currently employs 67 staff in the Australian Capital Territory and Riverina Region, located at the Canberra, Wagga Wagga, and Wodonga offices. An additional 188 staff are employed at DHA's Head Office in Canberra.

DHA manages approximately 2,275 homes on and off-base in the ACT and Riverina Region.

In Canberra there is a mix of on and off-base housing. There is a predominance of one-storey, freestanding dwellings, with apartments and townhouses available in the newer suburbs of Canberra. Inner city apartments also provide ADF members with choice housing to suit their lifestyle.

DHA manages 347 properties in the Wagga Wagga area. Many of the older houses have been replaced by newer dwellings and the newer suburbs of Glenfield, Bourkelands, Lloyd and Tatton house the majority of off-base service residences.

DHA manages 278 properties in the Albury/Wodonga region. The vast majority of these are in Wodonga. Due to the amount of space available in Wodonga, most houses are one-storey freestanding brick dwellings with backyards but there are also a small number of units.

The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

AUSTRALIAN CAPITAL TERRITORY AND RIVERINA REGION			
	Canberra	Wodonga/Riverina	Wagga Wagga
Purchases			
Newly-acquired houses	27	16	6
Newly-constructed houses	60	4	15
Sales			
Sold and leased back (SLB Program)	67	11	20
Portfolio Sale (Westpac)	51	0	0
Disposals (sale of surplus properties)	8	15	23
Leases			
Direct leases	29	5	4
Lease options ¹	75	8	3
Lease conversions ²	25	0	0
Operations			
Relocations administration	2,862	1,008	999
Relocations during peak (Nov–Jan)	1,640	353	393
Housing allocations	1,632	795	825
Maintenance orders (tenant-initiated) ³	4,772	1,188	1,428
Housing stock at 30 June 2006			
DHA-owned	223	71	109
Leased from private investors	1,227	172	167
On-base	198	35	71
Other managed stock (Australian Customs Service)	2	0	0

1 Lease options – the exercise by DHA of options to increase/decrease the term of a lease.

2 Lease conversion – the signing of a new lease with an existing lessor.

3 Maintenance orders raised between 14 August 2005 – 30 June 2006.

South East Australia Region

DHA currently employs 62 staff in the South East Australia Region.

Staff are located at six offices: Adelaide, Melbourne, Cerberus, Puckapunyal, Sale and Hobart.

DHA manages approximately 2,338 homes on and off-base in the South East Australia Region.

DHA manages 641 properties in the Adelaide area. Most houses are single-storey, freestanding dwellings on small blocks. In addition, there are several inner city units which are suited to couples with no children. DHA's properties tend to be concentrated in the northern part of the city. However all Defence establishments are well-served in terms of houses within reasonable distances.

DHA manages over 1,500 properties in Melbourne, with some properties located on-base and, more recently, in the inner city. Houses in Melbourne are a mix of freestanding houses, townhouses, duplexes and units.

A mix of on-base and off-base housing is available in Sale and Puckapunyal. In Tasmania, DHA properties tend to be located in Hobart, close to the Defence establishments.

The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

SOUTH EAST AUSTRALIA REGION		
	Vic/Tas	Adelaide
Purchases		
Newly-acquired houses	63	34
Newly-constructed houses	33	13
Sales		
Sold and leased back (SLB Program)	38	43
Disposals (sale of surplus properties)	34	6
Leases		
Direct leases	10	0
Lease options ¹	48	32
Lease conversions ²	0	1
Operations		
Relocations administration	4,133	1,344
Relocations during peak (Nov–Jan)	1,565	569
Housing allocations	2,909	986
Maintenance orders (tenant-initiated) ³	5,568	1,603
Housing stock at 30 June 2006		
DHA-owned	515	120
Leased from private investors	680	444
On-base	502	74
Other managed stock (Australian Customs Service)	0	3

¹ Lease options – the exercise by DHA of options to increase/decrease the term of a lease.

² Lease conversion – the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 14 August 2005 – 30 June 2006.

Western Australia Region

DHA currently employs 27 staff in the Western Australia region. Staff are located at three offices: Perth, Bullsbrook and Rockingham.

DHA manages approximately 925 homes on and off-base in the Western Australia Region.

In Western Australia, the majority of DHA housing is located in Perth, Bullsbrook, Rockingham and surrounding areas.

In Perth, the standard of housing is relatively high with all DHA houses located relatively close to the city, and within the specified posting locality of each base.

Bullsbrook is a relatively small town close to the Pearce RAAF Base. The majority of residents at Bullsbrook are Defence tenants. Housing in Rockingham and Swanbourne comprises a mix of three to four-bedroom homes.

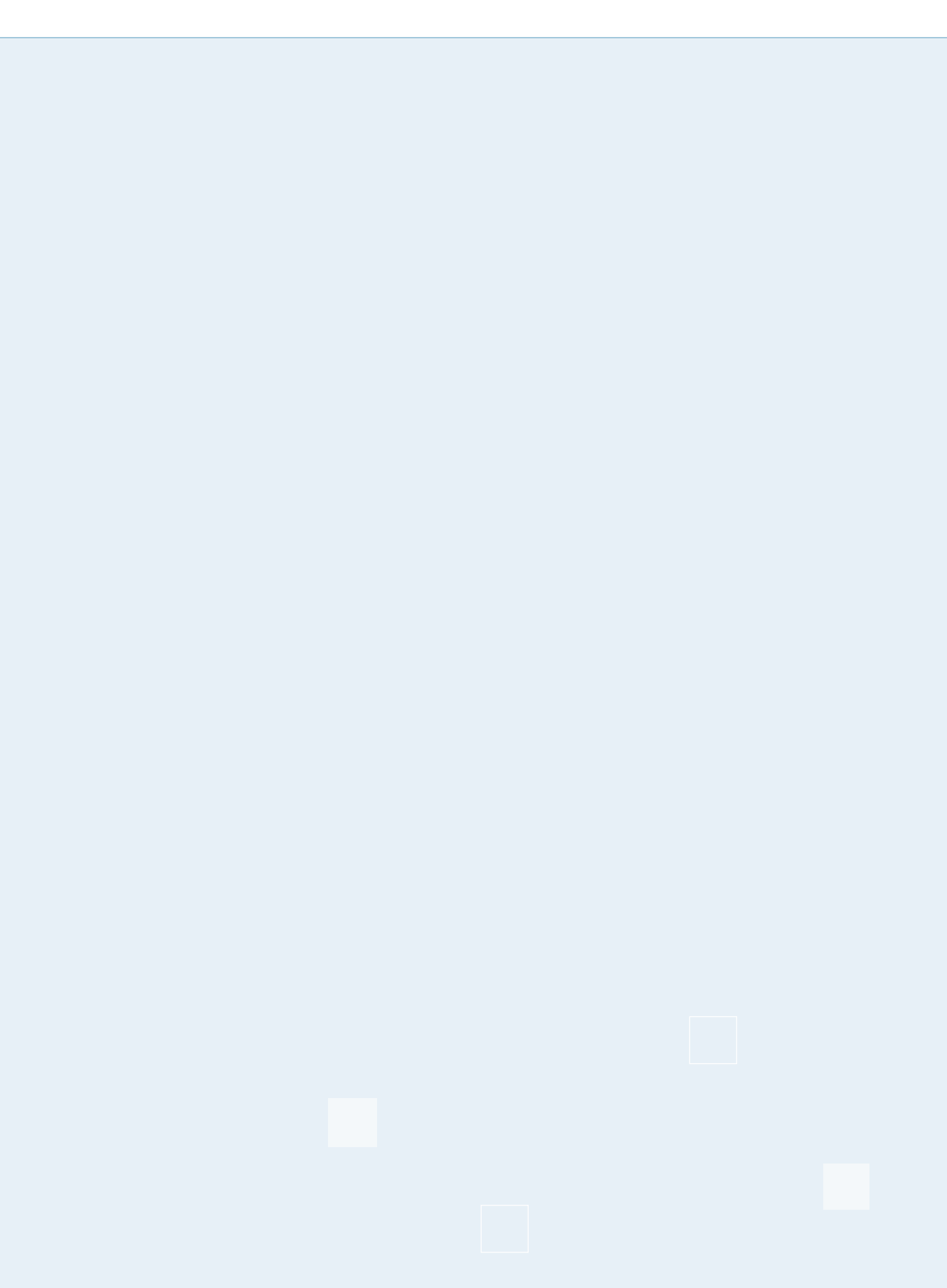
The table below shows DHA's major activities for the financial year and the total housing stock as at 30 June 2006.

WESTERN AUSTRALIA REGION	
	Perth
Purchases	
Newly-acquired houses	1
Newly-constructed houses	63
Sales	
Sold and leased back (SLB Program)	82
Disposals (sale of surplus properties)	5
Leases	
Direct leases	13
Lease options ¹	55
Lease conversions ²	2
Operations	
Relocations administration	2,084
Relocations during peak (Nov–Jan)	733
Housing allocations	1,184
Maintenance orders (tenant-initiated) ³	4,061
Housing stock at 30 June 2006	
DHA-owned	216
Leased from private investors	661
On-base	9
Other managed stock (Australian Customs Service)	39

¹ Lease options – the exercise by DHA of options to increase/decrease the term of a lease.

² Lease conversion – the signing of a new lease with an existing lessor.

³ Maintenance orders raised between 14 August 2005 – 30 June 2006.



VALUE FOR MONEY FOR CLIENTS



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SERVICES TO CLIENTS

Department of Defence

We deliver housing and relocation services under two contracts with the Department of Defence: the Services Agreement on Housing and Related Requirements (Services Agreement) and the Relocation Services Agreement. In delivering these services, the Defence Housing Authority is subject to a number of Key Performance Indicators (KPIs).

In 2005–06, DHA fully achieved 70 per cent of the Services Agreement KPIs in every period measured. The remainder were achieved in most months measured.

80 per cent of the Relocations Services Agreements were fully achieved in every period measured. The remainder were achieved in most months measured.

These results indicate a continuing strong performance by DHA in the provision of value for money to our principal client.

COMMUNICATING WITH OUR CLIENT – DEPARTMENT OF DEFENCE

DHA maintains regular and effective communication with the Australian Defence Force (ADF) and the Department of Defence civilian staff who manage the contracts and formulate housing and relocations policy.

We measure the effectiveness of the client relationship through an annual survey distributed to both Department of Defence staff and DHA staff. The results of the 2006 Client Survey reflect DHA's strong working relationship with the Department of Defence, with 77 per cent of Defence respondents satisfied with the client relationship. Over 80 per cent of the respondents also considered that DHA's provision of housing and relocation services contributed positively to the retention and morale of ADF members and their families and the ability to post ADF members around Australia.

77%

of Department of Defence respondents satisfied with the client relationship.

83%

of Australian Customs Service respondents satisfied with the client relationship.

SERVICES AGREEMENT WITH DEFENCE

In 2005–06, DHA successfully negotiated a new Services Agreement with the Department of Defence, to take effect on 1 July 2006. The Services Agreement outlines the price, terms and conditions under which DHA is to provide housing and related services for the Department. The new Agreement will simplify management arrangements and place the relationship on a more commercial footing, with DHA assuming additional vacancy risk. The new Agreement also includes incentives for DHA to minimise the number of ADF members receiving Rent Allowance³ as this is a more expensive housing solution for the Department of Defence than a DHA-provided home. The result will be substantial savings for the Department and provides a challenge to DHA to continue improving its performance.

NEW HOUSING CLASSIFICATION POLICY

During the year, DHA continued to assist the Department of Defence with the development of a new housing classification policy. The proposed policy defines ADF members' housing entitlements by market rent instead of the amenity of the dwelling, although a higher minimum standard for all housing is a key feature of the new policy. The new arrangement will provide families with greater choice and better align Defence housing with community standards. Implementation of the new policy is scheduled for July 2007.

WORKING WITH DEFENCE FAMILIES

Defence Community Organisation

DHA has continued to work closely with the Defence Community Organisation (DCO), a unit within the Department of Defence, with the aim of supporting ADF members and their families. DCO and DHA work together to ensure timely approvals for the provision of facilities for families with special needs. DHA also provides data to support DCO operations across all regions.

DHA regularly participates in DCO events and activities through sponsorship and attendance at DCO functions. DCO days are held around Australia to welcome ADF members and their families to the community and to brief them on local services.

³ Members on Rent Allowance receive a subsidy up to their entitlement for renting a property in the private rental market.

Defence Families Australia

DHA provides regular support and assistance to Defence Families Australia (DFA), a volunteer organisation that seeks to influence Department of Defence policy in relation to family matters. DHA seeks DFA's input on a wide range of customer service issues, including housing design, customer service standards and complaints management protocols.

DHA was honoured to host one day of the 2006 DFA Annual Conference held in Canberra. The Conference provided delegates with the opportunity to meet the Minister Assisting the Minister for Defence, the Hon Bruce Billson MP, senior Defence personnel and key Defence stakeholders and to raise for discussion a range of matters of interest to Defence families.

Australian Customs Service

Since 1993, DHA has provided residential property management services to the Australian Customs Service (ACS) for 76 houses in remote locations around Australia. We have maintained a productive working relationship with ACS in support of its operational requirements at the national and regional levels through the delivery of a high standard of maintenance service and ongoing capital program management.

The annual client survey for 2005–06 indicates that 83 per cent of those ACS staff surveyed were satisfied with the relationship between DHA and ACS. 88 per cent were also satisfied with the level of maintenance service.



MEET SHAREHOLDER REQUIREMENTS



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FINANCIAL OVERVIEW 2005–06

The 2005–06 year was challenging for the Defence Housing Authority from a financial perspective:

- the residential investment markets in most parts of Australia slowed, making it more difficult to sell properties;
- DHA has embarked on a significant multi-year capital program, creating more pressure on DHA's sales program to raise capital;
- new accounting standards were also introduced, which impacted on the presentation of DHA's financial statements; and
- the *Defence Housing Authority Act 1987* was amended in May 2006, widening DHA's business opportunities and placing DHA under the administration of the Australian Taxation Office (ATO) for company tax purposes.

DHA implemented Australian Equivalents to International Financial Reporting Standards (AEIFRS) during 2005–06. DHA's 'for profit' status under these standards was approved under the Finance Minister's Orders. The most significant change relating to the introduction of the AEIFRS was in accounting for Investment Properties⁴. Australian Accounting Standards Board Standard 140 (AASB140) was adopted and an election was made to carry assets at cost. Previously, these assets were carried at 'fair value'⁵. Adoption of AASB140 resulted in a reduction in the value of DHA's assets and equity. It also means that, when future sales of investment properties occur, the fully-realised profits⁶ or losses are reported in the Income Statement. This change provides a more transparent view of DHA's property transactions than in the past and allows more effective management of DHA's business lines.

OPERATING RESULTS

As part of the implementation of AEIFRS, DHA's 2004–05 financial statements have been restated in accordance with AEIFRS to provide a direct comparison with the 2005–06 statements.

(Refer to note 2 of the Financial Statements)

DHA's Operating Result for 2005–06 was \$100.6 million, against a target of \$100.4 million.

Return on equity (ROE)⁷ was 6.1 per cent in 2005–06, exceeding DHA's Corporate Plan target of 4.8 per cent and the previous year's actual ROE of 4.5 per cent.

4 Investment properties are those properties held by DHA over a longer term for either financial returns or strategic reasons.

5 Fair value is current market value.

6 Realised profit is the difference between sale and cost price.

7 Return on equity represents operating result less tax equivalent payments compared with average equity employed.

DHA's Total Income was \$857.3 million in 2005–06, compared with \$715.4 million in 2004–05. This increase is attributed to additional sales of inventory properties⁸ on a sale and leaseback basis. Overall, 844 properties were sold on a leaseback basis during the year, compared with 699 in 2004–05. The total profit on the Sale and Leaseback Program (SLB) for the year was \$27.1 million.

Expenses in 2005–06 totaled \$756.7 million, compared with \$577.5 million in the previous year. The increase in expenses arose from the bringing to account of the cost of properties sold, as well as a write-down of inventory properties and impairment of Plant and Equipment⁹.

Under AEIFRS, inventories are held at the lower of cost or net realisable value and this is assessed on an individual asset basis, rather than by class.

DHA's inventory properties and land holdings were reviewed by an independent property valuer at year's end. The DHA Board agreed with the assessment of 'fair value' and consequently wrote down \$16.3 million in the carrying values of inventories. The DHA Board also recognised the impairment of Plant and Equipment⁹ at a total value of \$9.6 million.

Rental outlays to lessors for residential properties increased by \$12.3 million, or 7.4 per cent, in 2005–06. The rental outlays increased for three reasons: a general increase of 2.8 per cent in assessed rent, improvement in stock of 1.0 per cent and additional leases year on year adding to outlays by 3.6 per cent.

DHA's administrative costs held firm year on year. Employee expenses were reduced by \$1.1 million, or 2.24 per cent in 2005–06. Total staff at 30 June numbered 689, only marginally higher than the previous year (687). However, the average staffing level year on year fell by 46, or 6.7 per cent, which reduced employee expenses in both nominal and real terms.

DHA's Operating Result is underpinned by revenue earned from the sale of investment properties, which in the past has primarily been applied to the return of capital to shareholders of \$1.107 billion between 2000 and 2004. In 2005–06, a net gain of \$44.6 million was generated from this source, compared to \$56.5 million in 2004–05.

Earnings from the sale of investment properties is diminishing significantly and DHA must seek new sources of revenue. The recent amendments to the DHA Act will enable DHA to provide services to a range of Commonwealth agencies in addition to the Department of Defence. DHA is also exploring new business opportunities with the Department of Defence for the provision of housing services for single Australian Defence Force (ADF) members.

RESIDENTIAL INVESTMENT MARKETS

Prices for residential properties in Australian capital cities have either remained steady or fallen over the past eighteen months. The only exceptions are Perth and Darwin, where prices increased. The most difficult markets for DHA have been Sydney, Brisbane, Canberra and Melbourne.

The softening of these markets occurred at the same time as DHA increased its capital program, which amounts to more than \$450 million per annum for the next four years. The increased capital program will enable DHA to complete the process of replacing all houses – leased or owned – which are below Defence amenity standards, and to meet increased housing requirements.

The DHA Board resolved, during the year, to widen its capital raising options by selling inventory to financial institutions. In April 2006, following an open tender, DHA sold 178 properties on a leaseback basis to Westpac Funds Management Limited (WFML) at a total price of \$99.6 million. This was a major achievement for DHA, representing a significant widening of the market for the sale and leaseback of inventory properties.

⁸ Inventory properties are those properties held by DHA with an intention to sell via the Sale and Leaseback Program.

⁹ Plant and Equipment represents DHA's non-property assets.

DHA sold a total of 844 inventory properties in 2005–06 to both individual investors and WFML, yielding revenue of \$358 million. This was an increase of \$135.1 million (60.6 per cent) from the SLB program for the year.

DHA STOCK

The DHA Board approved a new property investment strategy during 2005–06, pursuant to which DHA reclassified as investment properties \$94.4 million of inventory properties. Progressively over the next three years, DHA will increase its strategic holdings to create a larger critical mass of properties to support better provisioning of ADF housing. This change in policy is not expected to increase DHA's overall ownership level significantly because the Authority will continue with its sale and leaseback of inventory properties to raise capital for its capital program.

DHA managed a portfolio of approximately 17,000 properties across Australia as at 30 June 2006. The total value of these assets was \$6.2 billion, of which properties worth \$1.4 billion were owned by DHA. The remaining properties were leased from private investors or owned by the Department of Defence (on and off-base). Most of the latter properties were subject to annuity funding by DHA.

DHA ownership of off-base properties under management stood at 25 per cent at year-end against a corporate plan target of 26.9 per cent. This was due to an increase in the number of lease properties managed by DHA during 2005–06.

Off-base properties included Defence off-base annuity properties¹⁰ (4.8 per cent), DHA investment properties (13.6 per cent) and DHA inventory properties (6.6 per cent).

CONTAINING COSTS TO DEFENCE

The relationship between the Department of Defence and DHA is covered by a Services Agreement on Housing and Related Requirements (Services Agreement) and a Relocation Services Agreement.

Total provisioning of housing as at 30 June 2006 was 18,764 (including 2,550 ADF members with dependants on Rent Allowance). This represented a 0.8 per cent variance to the total provisioning target of 18,923 for 2005–06. This was a similar result to that achieved in 2004–05.

During the year, DHA negotiated a revised Services Agreement with the Department of Defence, which became effective on 1 July 2006. The new financial arrangements with Defence simplify billing arrangements and transfer vacancy risk from Defence to DHA (with a fee paid to DHA to cover the risk).

In 2005–06, DHA achieved vacancy rates of 3.2 per cent in Effective market areas¹¹ and 3.4 per cent in Limited market areas¹². The contractual targets in the old Services Agreement were 3.5 per cent and 4 per cent respectively.

RETURNS TO SHAREHOLDERS

DHA is required to comply with the Australian Government's competitive neutrality policy. This ensures that DHA does not enjoy a commercial advantage resulting from tax exemptions flowing from its status as a Government Business Enterprise.

¹⁰ Defence off-base annuity stock is property owned by the Department of Defence but financed by DHA.

¹¹ Effective (and deemed effective) markets are those locations that are big enough to support a competitive market with DHA's activities not materially affecting them. Effective markets include Sydney, Melbourne, Darwin, Townsville, Brisbane, Canberra, Adelaide and Perth.

¹² Limited markets are those locations that are not big enough to support a competitive market, and DHA activity could cause adverse effects on the market. Limited markets include Cairns, Tindal, Hunter, Nowra, Wagga Wagga, Wodonga, Rural Victoria, Hobart, and Rural Western Australia.

DHA complies fully with Commonwealth Fringe Benefits Tax (FBT) and Goods and Services Tax (GST) legislation, providing payment to the ATO throughout the year. However, DHA is currently exempt from paying state taxes and Federal company tax. In respect of these taxes, DHA pays tax equivalent dividends to the Australian Government to ensure a 'level playing field' with its private sector competitors.

Dividends attributable to the 2005–06 Operating Result totaled \$76.8 million – an increase of \$9.7 million (14.5 per cent) on 2004–05 dividends. This comprises tax equivalent dividends of \$36.9 million and an ordinary dividend of \$39.9 million.

The recent amendments to the DHA Act place DHA under the administration of the ATO for company tax purposes. As a result, DHA will submit its first company tax return to the ATO for 2007–08. DHA will, however, continue to pay tax equivalent dividends to the Australian Government in respect of state taxes.

CAPITAL STRUCTURE

As part of the implementation of AEIFRS, DHA adopted AASB 140 Investment Property Standard for its investment properties. These properties are now recorded at cost and depreciated. This is the second recent significant accounting change made by DHA; the first was the implementation of inventory accounting for sale and leaseback properties in 2004–05. Both changes facilitate a better understanding of DHA's property holdings and make the setting of targets and the reporting of achievements more transparent.

DHA's Balance Sheet shows the Australian Government's equity in DHA as \$1.1 billion. Recent advice from independent valuers indicates that DHA's investment properties have recorded an unrealised gain over cost of approximately \$400 million.

In both 2004–05 and 2005–06, DHA did not sell sufficient inventory properties on a sale and leaseback basis to meet its capital program for those years. This is demonstrated in the negative net cash flow from operating activities in DHA's Cash Flow Statement. This net cash deficiency was met from the sale of investment properties.

DHA will continue to explore potential sales to financial institutions, and will focus on maintaining the attractiveness of the sale and leaseback product to individual investors in the face of difficult market conditions and changes in tax structures for individual investors. The overall sales objective is to achieve a sufficient increase in revenues from the sale and leaseback of inventory properties to ensure there is no build up of these holdings and to achieve a positive cash flow from operating activities.

DHA negotiated a new Loan Agreement with the Department of Finance and Administration in the latter part of 2005–06. The agreement will commence in August 2006 and provides DHA with more flexibility than previous loan agreements. However, as DHA has not been given access to a commercial overdraft, the Authority will continue to hold higher levels of funds to meet its capital program, than otherwise.

There were no new borrowings in 2005–06. There was, however, a repayment of \$35 million, bringing borrowings at year end to \$340 million. Gearing¹³ at 30 June was 60.3 per cent and times interest cover¹⁴ was 5.44.

¹³ Gearing is the amount of debt and other off-balance sheet financial commitments compared to equity within the company. Commitments are primarily for rental streams to be paid to DHA lessors.

¹⁴ Times interest cover is the measure of ability to meet debt commitments from an operating profit.

STANDARD & POOR'S CREDIT RATING

Standard & Poor's credit rating of DHA continues to be a stand-alone rating of AA+. This rating assists us in obtaining funds at competitive rates to meet our borrowing requirements.

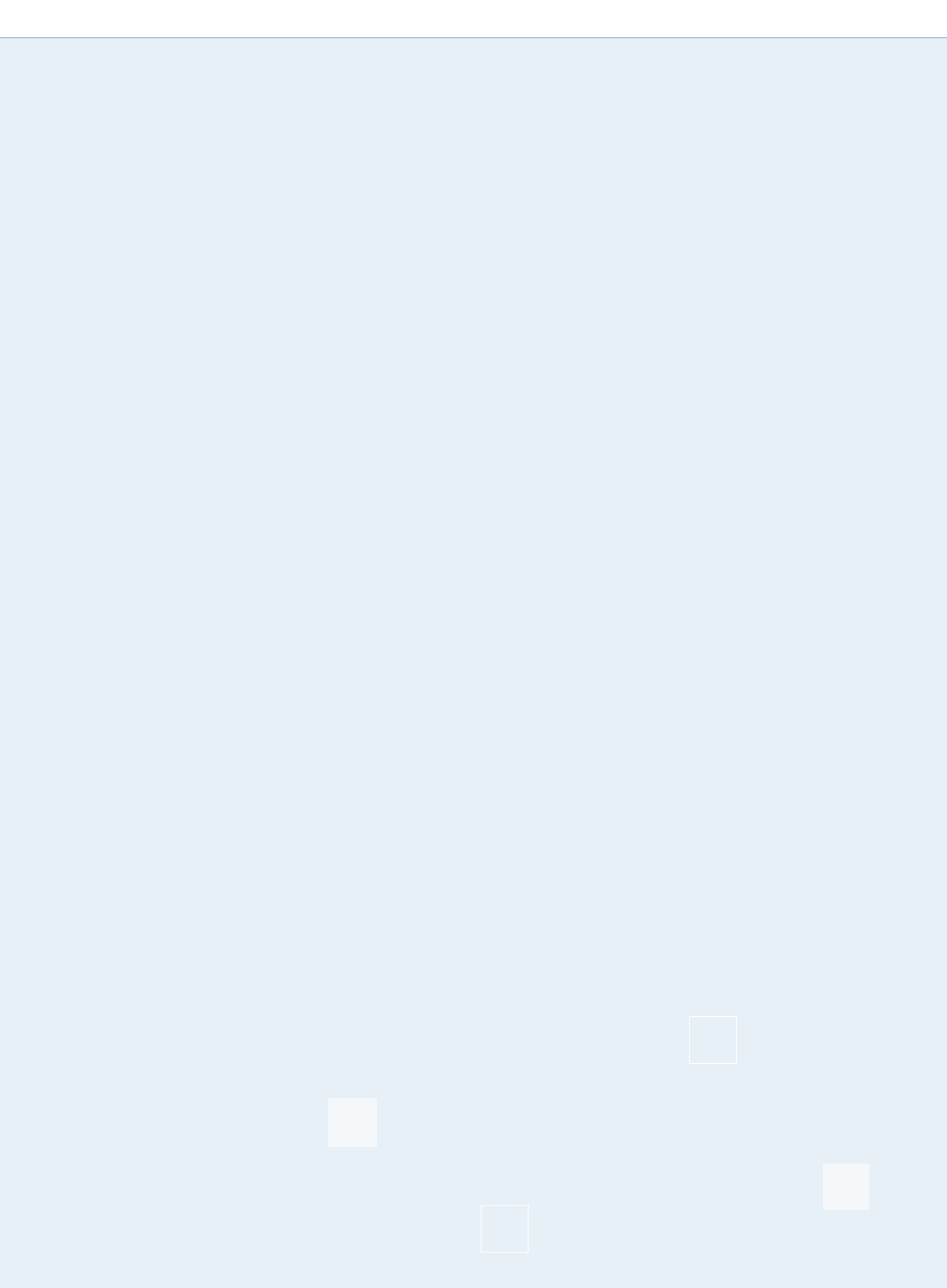
The overall shareholder value added return was 8.6 per cent for 2005–06. This was a slight reduction on the 8.7 per cent achieved in 2004–05, reflecting the slower property market and a reduction in asset values.



STATISTICAL SUMMARY

	2001-02	2002-03	2003-04	2004-05	2005-06
Shareholder Value Added	13.7%	15.5%	12.3%	8.7%	8.6%
Shareholder Value Added	\$203m	\$225.8m	\$195.4m	\$173.9m	\$101m
Operating Result*	\$91.9m	\$83.7m	\$70.4m	\$137.9m	\$100.6m
Total Dividends in respect of the financial year	\$66.5m	\$62.2m	\$71.1m	\$67.1m	\$76.8m
Special Dividends/Capital Returns	\$250m	\$307m	\$150m	0	0
Total managed stock	18,432	17,311	16,756	16,824	16,875
Constructions	263	539	489	451	460
Acquisitions	120	420	620	520	510
Leased or released stock	101	230	1,063	515	343
Sale of surplus stock	582	573	468	412	327
Revenue generated from sale of surplus stock	\$108.3m	\$136m	\$111.4m	\$109.3m	\$97.6m
Sale and Leaseback Program	749	1,061	891	699	844
Revenues generated from sale of inventory properties	\$220m	\$338.3m	\$322.7m	\$222.9m	\$358m
Maintenance costs of DHA managed properties	\$29m	\$33.6m	\$32.2m	\$29.5m	\$32m
Number of relocations	31,146	32,256	30,378	30,809	32,254
Peak posting cycle pre-allocation rate	69%	72%	75%	70%	72%
Total staff	658	779	781	687	689

*Operating Result in 2005-06 has been prepared based upon Australian Equivalents to Financial Reporting Standards (AEIFRS). 2004-05 comparisons have been recast to conform with AEIFRS. Prior year results are not comparable because they were prepared under Australian Generally Accepted Accounting Principles (AGAAP).



EFFECTIVE AND INNOVATIVE MANAGEMENT – BUSINESS PARTNERSHIPS



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SERVICES TO LESSORS

The Defence Housing Authority values the role of lessors in enabling it to provide quality housing solutions for Australian Defence Force members and their families.

Both the Sale and Leaseback (SLB) and Direct Leasing Programs play a vital role in the achievement of DHA's capital program. During 2005–06, we continued to refine our services to lessors, taking into account changing residential property market conditions and customer feedback.

Leasing programs

In 2005–06, DHA managed over 10,500 leases. Key benefits for investors include a secure long-term lease agreement, no loss of rent due to tenant vacancy, high quality property management, no responsibility for day-to-day maintenance and return of the property in good condition (subject to normal wear and tear) at the expiry of the lease term. Our leasing programs provide a 'peace of mind' investment strategy.

Lessor satisfaction is measured through an annual lessor survey. The 2005–06 survey was distributed to 3,712 randomly selected lessors, with 1,265 surveys returned, representing 34 per cent of those surveyed. As in previous years, satisfaction levels remained high, with 93 per cent of respondents indicating they were satisfied with the current DHA lease of their property and 93 per cent were satisfied with DHA's lease management.

SALE AND LEASEBACK PROGRAM

Throughout 2005–06, DHA's acquisition and funding strategies have largely focused on on-selling existing or newly-acquired and constructed properties to private and institutional investors.

Our SLB Program, marketed under the *Defence Housing Australia* brand, is concerned solely with the sale of properties to private investors with whom a leaseback arrangement has been agreed for a set period of time. Lease periods range between three and 12 years to suit Department of Defence operational requirements across Australia.

In October 2005, DHA introduced a minimum rental guarantee (to be maintained for a minimum of 12 months) to enhance the attractiveness of the SLB Program in the prevailing soft residential property market conditions. In other words, we set a rental floor below which rent paid to eligible investors cannot fall. This is a significant shift in rental risk from the investor to DHA, further enhancing our ability to provide worry-free residential property investments.

93%

satisfaction with the current DHA lease.

93%

satisfaction with DHA's lease management.

92%

likely to recommend a DHA investment to others.

844

properties sold through the SLB Program, generating \$358 million.

The minimum rental guarantee, combined with a stamp duty reimbursement promotion in some areas, resulted in increased investor confidence. To this end, the 2005–06 SLB Program targets of 830 properties were exceeded, with 844 properties sold, producing \$358 million in revenue.

The annual lessor survey revealed that loyalty remained high with 85 per cent of respondents indicating that they would recommend to others investing in a DHA property. In addition, 51 per cent of respondents who had originally purchased their property under the SLB Program indicated that they would be likely to purchase another DHA property.

DIRECT LEASING

In addition to sourcing properties through the SLB Program, DHA leases residential properties directly from private landlords. Leased housing must meet the same standards as those required for constructed or purchased houses. For this reason, DHA must often negotiate with lessors to ensure the provision of extra inclusions to meet Department of Defence specifications. These include, for example, security screens and doors, outdoor living areas and adequate storage.



“I decided to purchase a DHA property because DHA offers an investment package, as opposed to just a property for investment. I was sceptical at first, I thought the package sounded too good to be true. I did a fair bit of research and found that DHA removes the major risks involved with owning an investment property. DHA looks after the management, tenants and also the ongoing maintenance of my property. All I need to do is just sit back and relax knowing my investment is in good hands”.

Kevin Richardson, DHA Lessor

As with the SLB Program, DHA provides property management and maintenance services to the lessor for a single fee. In 2005–06, most direct leases were for a period of three to six years and provided DHA with an option for extension.

In major capital cities such as Sydney, DHA is increasingly entering into agreements with builders and developers for the lease of multiple dwellings in new developments on completion. This ensures that new leased housing contains the amenities required by the Department of Defence. These developments often include other amenities such as pools and gymnasiums.

During the year, 716 leases were renewed following the expiry of the original lease agreement. A further 136 leases were renewed prior to the end of the agreement.

In 2005–06, DHA leased 207 properties directly from private lessors. This number was below the corporate plan target owing to the existence of tight rental markets in some locations and the difficulty in identifying rental properties that meet Department of Defence requirements.

COMMUNICATING WITH OUR LESSORS

DHA prides itself on its sound relationship with our lessors. We have four sales offices located throughout Australia. The national sales office is in Parramatta, Sydney, and regional sales offices are located in Adelaide, Canberra and Perth. A team of dedicated personnel in the Housing Management Centres are responsible for ongoing property management and day-to-day maintenance of lessor properties. We take our responsibility in this area very seriously and provide regular feedback to lessors about their investment.

In the 2005–06 lessor survey, lessors were asked to indicate whether they had contacted DHA within the past 12 months. Nationally, 66 per cent of lessors indicated that they had done so. Of these, 93 per cent were satisfied with the courtesy and helpfulness of DHA staff and 92 per cent were satisfied with accessibility of staff. Satisfaction rates for the timeliness of DHA's response to requests, and DHA staff's knowledge, communication and follow-up were between 83 and 89 per cent.

We also communicate with our lessors through a regular property-specific magazine 'DHA Investor', which is distributed to existing and prospective lessors registered on the sales database. The magazine showcases a range of DHA properties for sale under the SLB Program and a range of hints, tips and other information of interest to residential property investors.

'Lessor News' is a periodic newsletter sent to DHA lessors informing them about issues affecting their leasing arrangements with DHA. The newsletter contains contact details for each DHA regional office, information about DHA projects, details of property investment seminars and SLB investment opportunities and topical articles of interest.

DHA hosts two websites dedicated to our residential property leasing programs.

RESIDENTIAL INVESTMENT WEBSITE – www.invest.dha.gov.au

This website is dedicated to investment opportunities under DHA's SLB Program. As well as outlining leasing arrangements, the website provides property descriptions, photos and floor plans for each DHA property listed for sale Australia-wide. Investors can register for a property-matching service and use a range of online calculators and tools. This website will undergo significant redevelopment in 2006–07 to take advantage of improvements in real estate website technology and improve general usability.

DIRECT LEASING WEBSITE – www.dha.gov.au

DHA's corporate website also has a dedicated section for private landlords and focuses on leasing arrangements under DHA's Direct Leasing Program, including a list of current leasing requirements by region. This website is regularly updated and was improved in a number of significant respects during the year. Private landlords may now offer their properties to DHA for leasing by completing an online questionnaire.



JANE SLACK-SMITH, DHA LESSOR

In 2001, Jane Slack-Smith diversified her property investment portfolio with the purchase of a DHA property. The property was located in an established neighbourhood with a high proportion of owner-occupiers and showed good growth potential. As an experienced investor, Jane always looks for diversification, capital appreciation and quality investments with good returns.

When Jane purchased her DHA property it had three years left on a nine-year lease, with the possibility of a three-year extension (which was executed this year). Jane tells us that this was only one of a number of attractive features provided through investment in a DHA property.

“As an investor with a large property portfolio, I have dealt with many managing agents and tenants. I have experienced high vacancy rates, late rent payments, even fire damage to property resulting in loss of rent. You name it – I’ve seen it.”

“With my DHA property however, I have the security of reliable tenants, on-time rental payments, no vacancies between leases and annual rental reviews. I couldn’t be happier with my choice.”

EMERGING BUSINESS

Amendments to the DHA Act

In November 2005, the Australian Government agreed to seek parliamentary approval for a number of proposed amendments to the *Defence Housing Authority Act 1987*.

The enabling Bill passed through Parliament in May 2006 and received Royal Assent on 22 May 2006. The key provisions of the new legislation will take effect on 23 November 2006, unless proclaimed earlier by the Government.

The amending legislation will offer the Defence Housing Authority a range of new business opportunities. In particular, it will allow us to broaden our functions to provide housing and housing-related services and ancillary services to certain other Australian Government agencies. These services will be in addition to our primary function and priority of providing services to Australian Defence Force (ADF) members and their families.

The amendments will also change the name of the Authority to Defence Housing Australia. The establishment of a new board and advisory committee will contribute to a more commercially-focused DHA, whilst maintaining our traditionally high standard of service to our ADF families.

Further information on the amended legislation is available on page 58–59.

DHA offers major investment opportunity

In April 2006, DHA sold \$99.6m worth of residential property to Westpac Funds Management Limited (WFML), on a leaseback basis. The sale follows a tender, issued in August 2005, seeking interest from institutional investors in purchasing DHA's properties on a bulk basis.

The landmark deal with WFML is the first transaction undertaken by DHA involving a large scale investment in DHA properties by an institutional investor. It is an innovative approach that opens up new business opportunities and provides DHA with access to a new segment of the investor market.

The properties that DHA has sold to WFML are located in Canberra, Sydney and Brisbane and will all be leased back to DHA to house ADF members and their families. DHA will manage the properties for WFML.

Although institutional investment provides a new source of capital for DHA, the investment opportunities provided to individuals through the SLB Program will continue to be DHA's primary source of capital.



Proposed amendments to the DHA Act were enacted by Federal Parliament in May 2006.



Sold \$99.6 million worth of residential property to Westpac Funds Management Limited (WFML).

100%

satisfaction with the Singles Choice properties and location.

Meeting the needs of single ADF members

SINGLES CHOICE ACCOMMODATION

DHA continues to explore innovative ways to deliver quality accommodation for our ADF members. We traditionally provide a range of housing solutions for ADF members and their families. Housing solutions for single ADF members include 'Living-in-Accommodation' on-base and the provision of Rent Allowance (RA) for properties on the private rental market.

In November 2005, DHA signed an agreement with the Department of Defence for an eighteen-month trial for the provision by DHA of off-base accommodation for single ADF members based in Darwin.

Under the trial, single ADF members have access to a range of modern apartments and townhouses close to the city centre and fully-managed by DHA.

The benefits of inner city living, without the need to pay a bond or rent in advance, plus the added security of 24 hour, seven-day-a-week maintenance support, make this new accommodation a very attractive option for single ADF members.

Over 80 properties have been allocated to single ADF members since early November 2005, with a further 20 properties expected to become available in August 2006.

ADF member feedback has so far been very positive, with 100 per cent of ADF members surveyed (70 members) stating that they are satisfied with both the property and location. Significantly, of the 45 members within this surveyed group who had previously received RA, 84 per cent stated that they would prefer to live in singles choice accommodation should it be offered in the future. Overall, members reacted favourably to many features of their property, including the location, view, newness of the property, space and storage, and the additional amenities and facilities provided (e.g. pool, gymnasium).



Single LEAP – Living Environment and Accommodation Precinct

In 2005–06, the Department of Defence initiated a Living Environment and Accommodation Precinct Program (Single LEAP) to address the need to improve and increase the quality and amount of on-base living accommodation for single ADF members across Australia. Over the next five years, the Department has signalled its intention to acquire a significant number of bed spaces. The program is specifically aimed at having the private sector deliver on-base single ADF member accommodation.

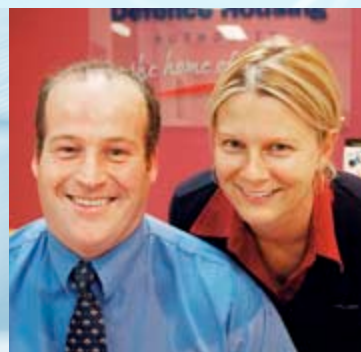
When Single LEAP was foreshadowed early in 2005, DHA considered various options for involvement. It decided to seek partners to pursue involvement in Single LEAP and to thereby share bid resources and costs. Subsequently a partnership agreement was completed with Bovis Lend Lease and Transfield Services.

In December 2005, the Department of Defence released a Request for Proposals seeking the provision of 1,295 single member units at Holsworthy, Enoggera and Amberley. On 12 May 2006, the DHA, Bovis Lend Lease, Transfield Services partnership submitted a proposal along with three other short-listed consortiums.

The outcome of the tender process had not been determined at year's end.



EFFECTIVE AND
INNOVATIVE
MANAGEMENT
– PEOPLE AND CULTURE



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DHA PEOPLE

In order to attract and retain highly skilled and motivated staff, the Defence Housing Authority is committed to maintaining its reputation as an employer of choice. Across Australia, we employed 689 staff as at 30 June 2006. Staff are employed under the *Public Service Act 1999*, with competitive pay and attractive employment conditions provided either via an individually negotiated Australian Workplace Agreement (AWA) or DHA's Certified Agreement (CA).

DHA's commitment to the development and growth of its people and culture is reflected in two specific corporate objectives:

- maintain a workplace environment consistent with being an employer of choice; and
- promote and maintain an external and internal customer-focused culture in a commercial environment.

DHA Staff Consultative Group

DHA's Staff Consultative Group (SCG) provides a mechanism for a collaborative approach to work issues between management and staff. It is a key communication channel that helps to facilitate feedback from staff in relation to DHA's workplace relations, policies and guidelines.

In 2005–06, the SCG represented staff in several forums, including formal SCG conferences held in November 2005 and March 2006. These conferences provided valuable feedback to managers and staff on a number of DHA strategies and projects. The SCG also provided input with respect to a range of new and revised People and Corporate Resources policies and guidelines. SCG staff and management representatives from around the country participated enthusiastically in the conferences. Feedback from staff suggests that the SCG is a valued communication channel.

Recognising and rewarding our staff

We recognise and reward the commitment and high performance of our staff through the presentation of a number of awards, including:

- service awards for staff who have been employed with DHA for five, ten and fifteen years;
- a Rewards and Recognition scheme recognising teams or individuals for outstanding performance in relation to the DHA Characteristics; and
- annual DHA Awards for Excellence.



A significant reduction in OH&S incidents and claims.



Remuneration review across DHA.



Increase in number of staff employed under an AWA.

ANNUAL DHA AWARDS FOR EXCELLENCE – 2005–06

DHA Employee of the Year – Sean Brogan (Darwin)

Best Performing Team – National Customer Service and Business Reporting Teams

Best Performing Housing Management Centre – South Queensland (Brisbane, Ipswich & Toowoomba)

Most Improved Operational Unit – Melbourne Housing Management Centre

Best Support Services Team – Business Solutions and Technology – Service Desk

Best Outcome in Project Management – Tindal Upgrade Project

Ensuring the health and safety of our staff – Occupational Health and Safety

DHA is committed to providing a safe and healthy workplace, free from discrimination and harassment.

In accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, DHA has developed an Occupational Health and Safety (OH&S) policy. This policy sets out the primary objectives of both managers and staff in maintaining a safe workplace, together with strategies for achieving this objective.

Our OH&S program includes:

- guidelines on safe working practices;
- provision of professional, external counselling when required;
- continuing provision of a safe work environment which satisfies staff needs; and
- employee OH&S awareness.

During 2005–06, DHA further developed its OH&S Program through:

- establishing and training a network of Contact Officers for the Prevention of Workplace Bullying and Harassment;
- conducting a series of Prevention of Workplace Bullying and Harassment Awareness Sessions for staff;

- providing general OH&S advice to managers concentrating on OH&S preventative action measures;
- providing advice and guidance to managers in circumstances where a staff member has unplanned leave of greater than five days;
- enhancing membership of the OH&S Committee to ensure the interests and concerns of staff covering all areas of the business are represented; and
- reviewing the number, location and training of all Health and Safety Representatives and First Aid Officers.

DHA also reinforced its commitment to providing a safe and healthy workplace through the co-signing with Comcare of a Statement of Commitment to the National Occupational Health and Safety Strategy 2002–2012 and providing targets for the reduction of workplace injury, lost staff time and time taken for rehabilitation intervention.

In 2005–06, there were 71 OH&S-related incidents reported at DHA. A total of sixteen claims for compensation arising from work-related injuries were made, of which Comcare accepted liability for fifteen.

No directions or notices under the *Occupational Health and Safety Act 1991* were given to DHA, and no OH&S Audits or investigations were undertaken in 2005–06.

Conflict of Interest Program

In accordance with the *Australian Public Service Act 1999*, DHA manages a Conflict of Interest Program to ensure that the private interests of staff, both professional and personal, do not conflict with their official duties.

This program was reviewed in 2005–06, resulting in the dissemination of new guidelines to educate staff on potential conflicts of interest and their effective management, DHA’s expectations in this regard and relevant legislative requirements.

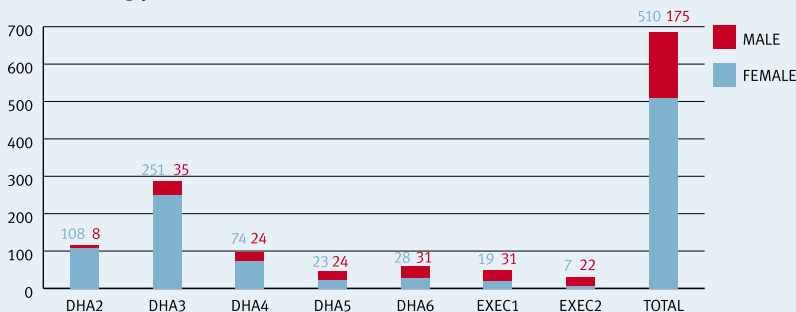
Staffing profile and recruitment

The total number of staff employed by DHA at 30 June 2006 and engaged under the *Public Service Act 1999* was 689, of which 168 were employed on a non-ongoing basis. An additional 27 employees were engaged as contractors.

DHA staff are selected on the basis of merit in accordance with the *Public Service Act 1999* and with due regard to the principles and objectives of workplace diversity.

The graph below represents DHA staff as at 30 June 2006, by classification and gender (not including SES staff).

DHA Staffing profile



BEST PRACTICE RECRUITMENT PROGRAM

In 2005–06, DHA developed and implemented a DHA Best Practice Recruitment Program. The aim of the program is to improve managers' skills and abilities in relation to recruitment and selection. It includes a handbook and tool kit on staff selection for managers.

The program also provides, on an ongoing needs basis, specialist coaching to key managers on contemporary selection processes.

Performance Management Scheme

DHA has a performance culture based on continuous improvement and development of its staff.

Our performance management scheme provides staff with the opportunity to participate in the business planning process, determine their own work goals and objectives in consultation with their manager, identify their short and medium term learning and development needs, consider their longer term career development and receive regular feedback on their development and performance.

Staff training

DHA makes a significant investment in staff training. This investment is tangible recognition of the value DHA places in its people and their professional and career development.

Key components of DHA's training and development strategy include programs to enhance the technical skills of staff in core operational processes and develop the management and leadership skills of senior staff through tailored coaching and other professional development initiatives.

DHA will be implementing an innovative blended training delivery program throughout 2006/07. This comprises a strategic combination of online and face to face delivery of training programs, which will best utilise the expertise of subject matter experts.

The proposed program has been designed to align with DHA's strategic objectives of staff retention, improved quality and productivity, enhanced competitive business, leadership and customer satisfaction.

Remuneration Framework

During 2005–06, DHA's remuneration conditions were comprehensively reviewed.

As a result of the review, an enhanced remuneration framework was implemented in March 2006. The new arrangements were developed with the objective of ensuring that DHA's pay structure is competitive, equitable and promotes staff retention.

Key features of the enhanced framework include:

- new salary levels and bands for staff employed under a DHA Australian Workplace Agreement (AWA) which are competitive with other government agencies and the general employment market; and
- a streamlined remuneration process to assist managers achieve consistency, transparency and efficiency.

NORTHERN TERRITORY RETENTION BONUS INITIATIVE

DHA has been experiencing high staff turnover in the Northern Territory, consistent with the experience of other organisations in the Territory.

DHA has implemented a Retention Bonus Initiative to encourage the retention of NT staff. A two-year incentive program is being offered to both ongoing and non-ongoing staff in the NT as part of their AWA. The level of incentive bonus paid to staff is dependent on their length of service with DHA.

REMUNERATION CONDITIONS

DHA sets the remuneration for its staff through the DHA Certified Agreement (CA) 2004–07, which covered 489 staff members at 30 June 2006. Remuneration of employees covered by the CA comprises salary payments and employer superannuation contributions.

In addition, staff members covered by an AWA have access to performance pay and, in some instances, special approved allowances. All staff have access to salary sacrifice arrangements.

As part of the enhanced remuneration framework, AWAs are now available to all DHA staff.

As at 30 June 2006, the number of staff employed under an AWA was 196, compared with 148 staff in 2004–05. As at 30 June 2006, 29 per cent of staff were employed under an AWA.

The tables below set out the revised AWA and CA salary ranges, as at 30 June 2006, applicable to each classification group. DHA's revised remuneration program was designed to reinforce DHA's status as an 'employer of choice'.

DHA AWA Remuneration

AWA CLASSIFICATIONS	2004–05		2005–06	
	MIN. OF RANGE	MAX. OF RANGE	MIN. OF RANGE	MAX. OF RANGE
DHA2	\$36,179	\$39,757	\$33,090	\$41,450
DHA3	\$40,748	\$43,708	\$40,900	\$49,990
DHA4	\$45,023	\$48,604	\$48,710	\$59,540
DHA5	\$50,486	\$53,290	\$55,760	\$68,150
DHA6	\$55,450	\$63,350	\$63,890	\$78,090
Executive Level 1	\$70,000	\$77,050	\$72,020	\$88,030
Executive Level 2	\$79,793	\$93,750	\$84,060	\$102,740

DHA CA Remuneration

CA CLASSIFICATIONS	2004–05		2005–06	
	MIN. OF RANGE	MAX. OF RANGE	MIN. OF RANGE	MAX. OF RANGE
DHA1	\$27,716	\$35,414	\$28,825	\$36,831
DHA2	\$36,179	\$39,757	\$37,626	\$41,347
DHA3	\$40,748	\$43,708	\$42,378	\$45,456
DHA4	\$45,023	\$48,604	\$46,824	\$50,548
DHA5	\$50,486	\$53,290	\$52,505	\$55,421
DHA6	\$53,700	\$61,161	\$55,848	\$63,608

Communicating with our staff

With 689 staff located in 32 Housing Management Centres and offices around the country, good corporate communication is critical to our success.

Communication occurs at multiple levels in the organisation, with key messages communicated either directly from the Managing Director or the Executive Management team. Communication between management and staff is key to our business and we aim to ensure that consistent communication approaches are used throughout DHA.

Key internal communication channels include the DHA intranet, a weekly electronic newsletter to staff, messages from the Managing Director and weekly email updates.

DHA INTRANET

In 2005–06, DHA redeveloped its key internal communication channel, the DHA intranet site. This followed results from a survey conducted on DHA's communication channels in 2004 and its design is based on feedback received from staff.

The new site was launched in December 2005. It features improved navigation facilities with information organised by subject rather than business unit, a fresh design using bright colours and fresh images, an improved search functionality and centrally-located forms, policies and guidelines.

The improved site helps to ensure staff are abreast of DHA's policies and guidelines and facilitates easy access to standard operating procedures, instructions, and memoranda. It aims to engage staff by providing them with useful information and resources and helps to build a more cohesive organisation.

Feedback since the launch of the new site has been extremely positive and continues to provide further ideas for improvement. In 2006–07, content on the intranet site will continue to be reviewed and updated.

ONLINE STAFF DIRECTORY

In 2005–06, DHA launched an online staff directory. The online directory is accessible via the intranet site and replaces the previous paper-based directory.

The directory allows staff to search for a fellow staff member by name, position, location and phone number. It has contributed to improved internal communication in DHA and has become an essential tool for staff.

DHA IN THE COMMUNITY

DHA SPONSORSHIP

Every year the Defence Housing Authority provides funding for a community relations sponsorship program. This program enables DHA to support worthy Defence community projects and to build positive relationships with associated community groups.

During 2005–06, we provided significant financial support for more than 20 Defence community initiatives, to the value of \$42,000.

DHA DONATES \$5,000 TO THE KATHERINE COMMUNITY

In 2005–06, we donated \$5,000 to the Katherine community to assist with recovery costs following the April 2006 floods.

DHA is very much part of the Katherine community. We employ five full-time staff at our Tindal office and manage 440 homes in the area – which means we have close contact with hundreds of families in the town.

Although none of our properties were damaged by the flood waters, we were proud to assist the local community in a time of need.

\$10,000 DONATION FOR THE CANBERRA BUSHFIRE MEMORIAL

The Canberra bushfires in 2003 left an indelible mark on the Canberra community.

Several Defence families were displaced by the bushfires, and DHA has played a part in rebuilding the affected suburbs. Since the bushfires, ten new DHA houses have been built in these suburbs, at a total cost of \$4.8 million.

In January 2006, we donated \$10,000 towards the cost of the ACT Bushfire Memorial, which stands as a permanent reminder of the lives lost and the many other victims of the 2003 Canberra bushfires.



Contributed over \$42,000 in community sponsorship.



Donated \$10,000 to the Canberra Bushfire Memorial.

DHA HELPS DEFENCE FAMILIES 'BELONG'

On 12 February 2006, DHA joined with Defence Families Australia (DFA) in welcoming Australian Defence Force (ADF) members and their families to Canberra. Belong O6 is an event held annually in Canberra, promoting the city as a posting locality and providing ADF members and their families the opportunity to meet with other ADF families in the region.

THE PILBARA REGIMENT MEMORIAL

On 11 November 2005, the Pilbara Regiment Memorial was dedicated in a service at Taylor Barracks in Western Australia. DHA contributed funds for the building of the memorial to honour those fallen soldiers who have paid the ultimate sacrifice whilst serving with the Pilbara Regiment.

SPECIAL NEEDS IN THE COMMUNITY

During 2005–06, DHA was involved in a number of activities helping to meet special needs in the community.

Our contribution to the Darwin Channel 7 Special Children's Christmas party in December 2005 helped put a smile on the faces of hundreds of children suffering from life-threatening illnesses or physical or intellectual disabilities. We contributed to the costs of the event and provided balloons and face painting activities for the children.

Approximately 1,200 children attended the party and experienced a full day of entertainment, celebrations and laughter.

DURING THE YEAR, DHA ALSO SPONSORED THE FOLLOWING COMMUNITY ACTIVITIES:

- Australian Army Band VP day concert in Darwin. VP day symbolises the end of World War II and recalls a time of renewed hope and enthusiasm after the dark years of the war;
- Production of an education booklet for the Kokoda Memorial Track walkway in Concord, Sydney;
- Queanbeyan Defence Cup. To promote our presence in an area heavily populated by ADF families, and to highlight our Sale and Leaseback Program to potential investors;
- Royal Australian Air Force – Richmond Base Children’s Christmas party. This enabled children to celebrate with other ADF families at Christmas time;
- Housing Industry Association housing awards in Adelaide. The awards recognise the pinnacle of achievement in the country’s home building industry;
- Royal Australian Navy – HMAS Albatross Children’s Christmas party. DHA contributed funds and promotional products so that the children could celebrate with other ADF families at Christmas time;
- Legacy Golf events. DHA provided sponsorship and prizes. Funds from the event went to support the widows and children of deceased ex-service personnel in the ACT;
- Make a Wish Foundation;
- Defence Community Organisation family days;
- Australian Navy Cadets, TS Perth. DHA assisted the navy cadets in achieving their goal of travelling to the Somme in France where Australian and New Zealand troops fought with great honour in World War I, and where over 28,000 soldiers lost their lives; and
- Red Shield Appeal, Salvation Army.

DHA AND THE ENVIRONMENT

The Defence Housing Authority is committed to the promotion and adoption of measures that contribute to environmental sustainability.

Environmentally sustainable development

In acquiring and building new houses, DHA adopts environmentally sustainable practices.

In accordance with the Nationwide House Energy Rating Scheme (NatHERS) *s.4.4, Commonwealth Energy Policy*, and in line with modern community standards, DHA's houses are built with a minimum four-star energy rating.

To conserve energy and minimise water usage in our properties, we endeavour to use AAA-rating fixtures and water efficient shower heads, dual flush cisterns, water tanks, gas-powered five-star energy-efficient hot water units and energy-efficient fluorescent lighting.

DHA also seeks to optimise passive solar performance in planning the design and orientation of its houses and landscaping, and through the provision of overhanging eaves and shades that provide maximum shade for our families.

We emphasise the planting of native plants and shrubs in our landscaping, which while minimising the area that requires water, nevertheless achieves a high level of amenity for our tenants.

In accordance with the Commonwealth's *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act), we ensure that all newly-constructed DHA properties comply with environmental laws and standards. Independent studies are undertaken with respect to DHA's major construction projects to assess the existence of any statutory planning, environmental or heritage issues, and infrastructure requirements in the context of a proposed residential development. Environmental impact assessment processes are conducted by external consultants.

DHA ensures that energy efficiency measures are included wherever possible in the major upgrade programs of existing stock, through the replacement of worn-out appliances, fixtures and fittings with modern energy-efficient appliances and water-saving devices.

Heritage Housing

DHA manages 75 properties for the Department of Defence that are either heritage-listed or are part of a heritage precinct. DHA has prepared a Heritage Register which identifies these heritage properties. The Department and DHA have jointly developed and implemented a Heritage Management Framework. Together, we work to ensure that heritage homes are identified and listed, and then cared for with due regard to their heritage values.

Over the past financial year, DHA has undertaken an upgrade program for the heritage houses that we manage. Our key achievements for 2005–06 include the refurbishment of five senior officer houses in Duntroon, ACT, the commencement of renovations to twelve heritage married quarters at HMAS Creswell, NSW and the refurbishment of Richmond House at RAAF Base Richmond, NSW and Gun House at the Artillery Barracks in Fremantle, WA.

As outlined in the Heritage Management Framework, upgrades which have the potential to impact adversely on the heritage values of the individual property or the wider precinct in which it is situated, may require the approval of the Minister for Environment and Heritage.

In 2005–06, two of the proposed refurbishments were submitted to the Minister for approval, whilst the remaining heritage upgrades were submitted to the Department of Defence for Environmental Certificate of Compliance (ECC) clearance. The ECC is an audit tool used by the Department of Defence to ensure that the potential environmental impacts of the projects have been assessed in accordance with the requirements of the EPBC Act.

The remaining 56 heritage-listed properties managed by DHA are scheduled for refurbishment as part of this upgrade program.

A Heritage Management Plan (HMP) is currently being prepared for each heritage property. The HMP will detail a series of steps to assist the Department of Defence and DHA in meeting their obligations under the EPBC Act. The HMPs will provide a practical guide for the day-to-day management of the properties.

DHA is also preparing a Condition Report and a Scope of Works Schedule for each heritage-listed property to assist in the formulation of a Capital Works Program.

Recycling

At DHA the conservation of paper and materials is strongly encouraged. Staff members are provided with recycling bins for the disposal of paper and are encouraged to minimise paper consumption through the wide use of electronic communication.

DHA uses recycled paper and environmentally-friendly materials in our customer relocation packs. These packs, which are provided to each Australian Defence Force (ADF) member on relocating, are printed on 100 per cent recycled paper.

AN ENVIRONMENTALLY FRIENDLY REPORT

DHA's 2005–06 Annual Report is produced using environmentally-friendly materials. The report is printed on Monza Satin recycled paper, one of only two Forest Stewardship Council (FSC) certified papers in Australia. Monza recycled paper has ISO 140001 accreditation.



LYONS DEVELOPMENT DARWIN

A SUSTAINABLE URBAN DEVELOPMENT

In March 2005, DHA entered into a joint venture (JV) with Canberra Investment Corporation Ltd (CIC) for the construction of a housing development in the new Darwin suburb of Lyons.

On the 15 March 2006, the first stage of Lyons was officially launched with a ground-breaking ceremony. Civil works for the first stage of this project commenced in May 2006.

The Lyons master plan aims to deliver an innovative, high quality, ecologically sustainable urban environment, suitable for Darwin's tropical climate.

Drawing heavily on local experience with Darwin-based architects, housing designers, engineers, town planners and surveyors, the uniqueness of the Darwin environment and landscape will be captured in the urban design, landscaping and architecture of the project.

To meet the needs of our ADF members and their families, a mixture of lot sizes will be provided to enhance liveability. Individual house design will play a critical role in the overall sustainability of the development.

Management of the project involves sensitive community consultation, achievement of planning objectives consistent with ecologically sustainable development and maximisation of opportunities for competitive territory businesses.

The project is based on a collaborative approach and allows active participation of individuals and organisations that have an interest in the area's future.

The JV has signed a Memorandum of Understanding (MOU) with the Northern Territory Government. The MOU contains an Industry Participation Plan, under which proponents are open to explore with indigenous groups' representatives, employment opportunities for indigenous people in the project.

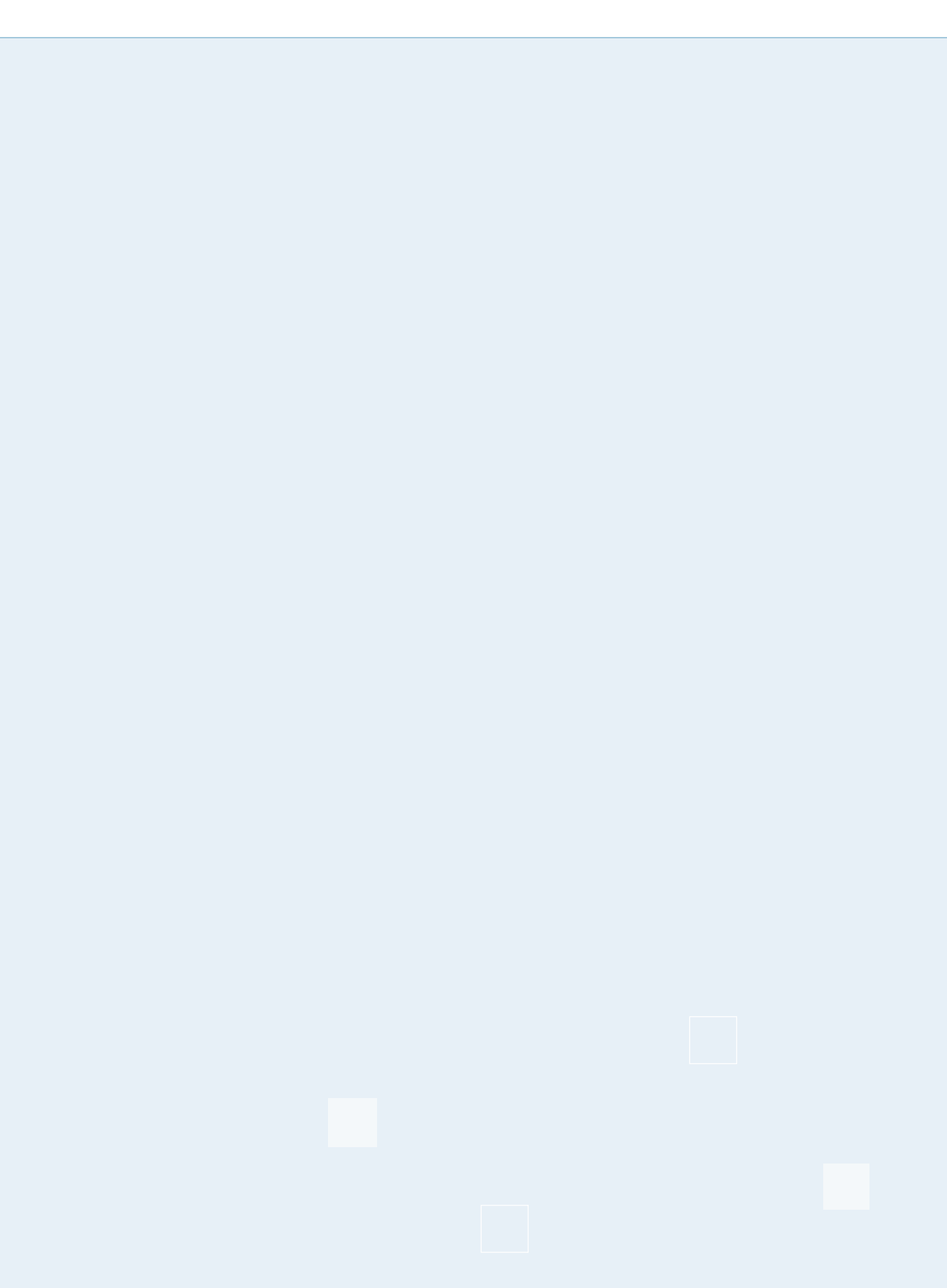
In September 2005, the JV signed a Heads of Agreement (HOA) with the Larrakia Development Corporation, Larrakia Nation Aboriginal Corporation and the Northern Land Council.

Under a specific employment clause applicable to all major works contracts awarded for the Lyons development, contractors are required to employ Larrakia people where they have the requisite skills and experience.

It is also a requirement of the HOA that the JV work with the Larrakia Corporation to physically recognise their cultural heritage within the public spaces in Lyons.

Following further negotiations with the Larrakia Nation Aboriginal Corporation, the JV agreed to engage the Balarinji Design Studio to project-manage the delivery of what has become Australia's largest indigenous public art project.

Information about the Lyons development is available online at www.lyons.com.au



EFFECTIVE AND INNOVATIVE MANAGEMENT – OPERATIONAL EXCELLENCE



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GOVERNANCE IN ACTION

The Defence Housing Authority operates within a governance framework designed to ensure accountable business outcomes and enhanced organisational performance. The DHA Board makes important decisions on the Authority's direction and oversees the process for holding managers accountable and measuring performance.

Enabling legislation

DEFENCE HOUSING AUTHORITY ACT 1987

DHA was established under the *Defence Housing Authority Act 1987* and commenced operations on 1 January 1988. Under this Act, DHA is required to provide adequate and suitable housing for:

- members of the Australian Defence Force (ADF) and their families;
- officers and employees of the Department of Defence and their families; and
- other persons, in order to meet the operational needs of the Defence Force and the requirements of the Department of Defence.

In May 2006 Federal Parliament passed the *Defence Housing Authority Amendment Bill 2006*, which received Royal Assent on 22 May 2006. The key provisions of the Act will commence on 23 November 2006, unless proclaimed earlier.

When they come into force, the new provisions will allow DHA to operate more commercially, to expand the scope of the services we can provide and the potential range of our customers.

Key objectives of the amending legislation are to:

- confirm that the primary function of DHA is to provide housing and housing-related services to ADF members to meet the operational requirements of the Department of Defence;
- broaden DHA's functions to allow it to provide housing and housing-related services to Commonwealth agencies other than Defence as defined in the *Financial Management and Accountability Act 1997*;
- broaden DHA's powers to allow it to provide services that are ancillary to housing and housing-related services to the Department of Defence and other Commonwealth agencies;

- establish a smaller, more commercially-focused Board with greater freedom to act;
- establish an advisory committee to advise DHA about the performance of its functions;
- remove DHA's exemption from Commonwealth taxation;
- retain DHA's exemption from State and Territory taxation but require it to make tax equivalent payments to the Commonwealth;
- change DHA's name to Defence Housing Australia; and
- remove the outdated provisions in the Act.

Copies of the *Defence Housing Authority Act 1987* are available from Canprint Information Services, or over the counter from Standards Australia outlets and the Information Victoria bookshop or Goprint. For contact details, see www.publications.gov.au/?legislation

An online version of the Act can be downloaded from the Scaleplus section of the Department of Attorney-General website: www.ag.gov.au

COMMONWEALTH AUTHORITIES AND COMPANIES ACT 1997

DHA also complies with the requirements of the *Commonwealth Authorities and Companies Act 1997* with respect to:

- reporting to Ministers and Parliament;
- corporate planning;
- contents of the Annual Report;
- audit of DHA's financial statements by the Auditor-General;
- banking and investment powers of authorities;
- general policies of the Australian Government; and
- conduct of Directors and officers, including the civil consequences of any breach of their duties by the Directors and officers.

PLANNING FRAMEWORK

How we plan and implement

DHA has a tiered planning framework that cascades organisational plans from the Corporate Plan through to individual performance plans. This framework enables staff to translate high level objectives into operational tasks.

Corporate Plan

DHA has a three-year rolling Corporate Plan that is updated annually. The process commences with environmental scanning, including collaboration with key external stakeholders. The Corporate Plan is based on a Balanced Scorecard. Objectives and strategies are developed within four strategic themes. Key Performance Indicators (KPIs) and targets enable the measurement of achievement against the objectives. The Corporate Plan is approved by the DHA Board and provided to DHA's Shareholder Ministers.

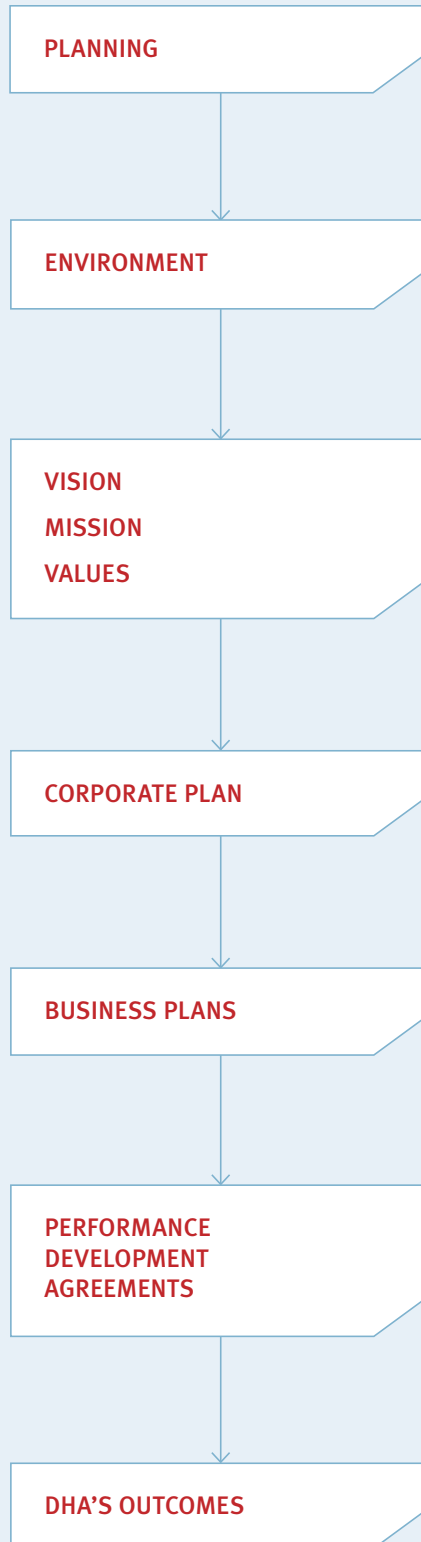
A companion document, the Executive Management Plan (EMP), sets out the activities required to implement the strategies and allocates responsibilities for the activities and KPIs.

Business Plans

Each Business Unit develops a Business Plan, which incorporates all responsibilities from the Corporate Plan and EMP, together with additional activities, measures and the budget relevant to that Business Unit. Business Plans are developed annually.

Performance Development Agreements

Every staff member has a Performance Development Agreement (PDA), setting out that individual's responsibilities under the relevant Business Plan. The PDA also sets out training and professional development requirements.



Reporting

Annual Reports

Quarterly Reports to Shareholder Ministers

Monthly Board reports

Management reports

REPORTING FRAMEWORK

How we report what we do

DHA's external and internal reporting is focused on the objectives set out in the Corporate Plan, the KPIs, targets, budgets and forecast financial statements associated with them. Key initiatives and issues are reported where relevant.

Annual Report

The Annual Report sets out DHA's performance in delivering the objectives (as measured through KPIs) and strategies set out in the Corporate Plan. It provides the annual financial accounts, associated financial information and details of important initiatives undertaken during the year. The content of the Annual Report complies with the requirements of the *Commonwealth Authorities and Companies Act 1997* and the *Public Service Act 1999*.

Quarterly Reports to Shareholder Ministers

DHA provides a quarterly report to its Shareholder Ministers, setting out progress for the year to date in delivering the Corporate Plan, together with key initiatives and issues for the organisation.

Reporting to the DHA Board

The DHA Board receives monthly reports on financial and other performance against Corporate Plan targets, together with papers on initiatives and issues as required.

Management Reporting

Each Business Unit receives detailed financial and other performance data monthly, with some KPIs reported weekly. Ad hoc reports can be accessed as required.

Each Business Unit reports progress monthly to the Managing Director.

The Executive management team monitors overall performance.

Shareholder Ministers

DHA is part of the Defence portfolio and is responsible to the Hon Dr Brendan Nelson MP, the Minister for Defence, a Joint Shareholder Minister, and Senator the Hon Sandy Macdonald, Parliamentary Secretary to the Minister for Defence.

Senator the Hon Nick Minchin, the Minister for Finance and Administration, is a Joint Shareholder Minister, and has delegated responsibility for DHA matters to the Hon Gary Nairn MP, Special Minister of State.

Prior to Dr Nelson's appointment on 27 January 2006, Senator the Hon Robert Hill was Minister for Defence.

During the year the position of Parliamentary Secretary to the Minister of Defence was previously held by the Hon Teresa Gambaro MP, and the Special Minister of State was previously Senator the Hon Eric Abetz.



The Hon
Dr Brendan Nelson MP



Senator the Hon
Sandy Macdonald



Senator the Hon
Nick Minchin



The Hon
Gary Nairn MP

MINISTERIAL DIRECTIONS

No Ministerial Directions were received for the reporting period under the *Commonwealth Authorities and Companies Act 1997* or the *Defence Housing Authority Act 1987*.

DHA's values

DHA complies with the *Public Service Act 1999*, which requires us to uphold and promote the Australian Public Service (APS) Values and APS code of conduct. We are committed to fair dealings in all our activities, including our interaction with the Department of Defence, ADF members and their families, building and maintenance contractors, suppliers, lessors and government authorities. High ethical and accountability standards are set and expected of all staff through DHA Values, Standards of Behaviour and Code of Business Ethics. These characteristics are promoted to staff via a range of mechanisms, including the intranet.

We are committed to providing a safe workplace, free of discrimination and harassment, and recognising the individual contributions of our staff members. We are also committed to high standards in our contractual relationships with maintenance and other contractors and private investors for whom we have property management responsibilities.

DHA Board of Directors

The Board met 10 times during 2005–06. These meetings were all held in Canberra. In addition, the members of the Board visited Melbourne in October 2005 for briefings and a tour of inspection of key DHA housing sites.

The DHA Board comprises 12 Directors:

- five Directors (including the Chairman), appointed by the Governor-General for their expertise in housing property, real estate, building, social planning or finance;
- one Director, also appointed by the Governor-General, is the spouse of a full-time ADF member;
- five Directors are ex-officio and consist of the Department of Defence staff occupying the positions for the time being of Head Defence Personnel Executive, the Deputy Chief of Navy, the Deputy Chief of Army, the Deputy Chief of Air Force and the First Assistant Secretary, Capability, Investment and Resources; and
- the Managing Director of DHA (who is also Chief Executive Officer) appointed by the Board of Directors and who is the only Executive Director.

Board members as at 30 June 2006

The Hon Peter V Jones AM	Chairman (appointed 25 June 2003)
Mr Michael Del Gigante	Acting Managing Director (appointed 1 September 2005)
Air Vice-Marshal John Blackburn AM	ADF ex-officio Director (commenced 16 January 2006)
Mr William Bowness	Director (appointed 13 April 2006)
Ms Annabelle Chaplain	Director (appointed 24 February 2005)
Rear Admiral Russell Crane CSM	ADF ex-officio Director (commenced 23 June 2006)
Major General Mark Evans AM	Defence ex-officio Director (commenced 4 July 2005)
Major General Ian Gordon AO	ADF ex-officio Director (commenced 19 May 2004)
Mrs Maureen Greet	Defence spouse (appointed 16 December 2004)
The Hon W Lloyd Lange	Director (appointed 13 April 2006)
Dr Ralph Neumann	Defence ex-officio Director (commenced 28 February 2002)
Mr Wayne Stokes	Director (appointed 25 June 2003)

AVM
John Blackburn

Dr Ralph
Neumann

RADM
Russell Crane

Annabelle
Chaplain

MAJGEN
Mark Evans

William
Bowness

Maureen
Greet

Wayne
Stokes

The Hon
Peter Jones

Michael
Del Gigante

MAJGEN
Ian Gordon

The Hon
William Lloyd
Lange



Directors retiring during 2005–06

The following DHA Board Directors completed their terms during 2005–06:

Rear Admiral Brian Adams AO	(retired 4 July 2005)
Rear Admiral Max Hancock	(retired 23 June 2006)
Mr Keith Lyon	(retired 31 August 2005)
Air Vice-Marshal Roxley McLennan AM	(retired 15 December 2005)
Mr Tom O'Brien AM	(retired 16 December 2005)
Mr John O'Grady	(retired 26 November 2005)

Attendance at Board meetings 2005–06

DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
The Hon Peter Jones	10	10
Mr Michael Del Gigante	9	9
Mr William Bowness	3	3
AVM John Blackburn	6	0
Ms Annabelle Chaplain	10	7
RADM Russell Crane	0	0
MAJGEN Mark Evans	10	5
MAJGEN Ian Gordon	10	3
Ms Maureen Greet	10	8
RADM Max Hancock	10	1
The Hon Lloyd Lange	3	3
Mr Keith Lyon	1	1
AVM Roxley McLennan	4	3
Dr Ralph Neumann	10	10
Mr Tom O'Brien	4	4
Mr John O'Grady	4	4
Mr Wayne Stokes	10	9

Board member profiles

THE HON PETER V JONES AM FAICD

Chairman of the DHA Board

Until recently Mr Jones was the Chairman of ARC Energy Limited, AMMTEC Ltd and several private companies. He retains several private business interests, is the Chairman of the Callaway Foundation for Music Education within the University of Western Australia and has previously served as Chairman of several listed companies associated with mineral and energy exploration and production.

He has been associated with several government-owned trading enterprises, including the Western Australian Water Corporation, of which he was the founding Chairman and served for eight years until retiring in December 2002.

Between 1974 and 1986, he was a member of the Western Australian Legislative Assembly, and served as a Minister in several portfolios including Education, Resources Development, Mines and Energy.

Mr Jones was appointed as Chairman of the Board of DHA in 2003 and is a member of the Board Audit Committee.

MICHAEL DEL GIGANTE BCOM(HON) MCOM MBA

Managing Director

Mr Del Gigante was appointed Managing Director of DHA on 4 September 2006. Previously he was Acting Managing Director.

Mr Del Gigante joined DHA as Chief Operating Officer in April 2004. Before joining DHA, Michael was Chief Executive Officer of TransACT Communications. He joined TransACT in 2001 after completing the Advanced Management Program at Harvard Business School in the United States. Prior to this, he was Chief Financial Officer of ActewAGL, a large electricity, water and gas utility company in Canberra.

Mr Del Gigante has held senior positions with the World Bank and the Inter-American Investment Corporation in Washington DC. He has also worked for a large American telecommunication company (Verizon – previously GTE) both in Europe and the United States, and for the Banco di Santo Spirito in Italy.

His qualifications include a Bachelor (Honours) degree in Commerce, a Masters degree in Commerce from the University of New South Wales, and a Masters in Business Administration from Boston University. He is a Fellow of CPA Australia and of the Australian Institute of Company Directors. He is also a member of the Advisory Board of the Royal Australian Mint.

Michael has lived and worked in the United States (Washington DC and Chicago) and Europe (Brussels, Milan and Rome) as well as Australia. He has lived in Canberra since 1994.

AVM JOHN BLACKBURN AM

Deputy Chief of Air Force

Air Vice-Marshal Blackburn joined the RAAF in 1975 as a cadet pilot. His initial operational tour was on the Mirage Fighter aircraft. Following his studies at the Empire Test Pilots School (ETPS) in the UK, he served as a test pilot with the Aircraft Research and Development Unit in South Australia.

In 1983, Air Vice-Marshal Blackburn was posted to Washington DC as the test pilot assigned to the fighter project team, managing the introduction into RAAF service of the new F/A-18 Hornet fighter aircraft. In 1986 he relocated to Oklahoma where he managed the F/A-18 Hornet simulator project. Upon his return to Australia in 1987 he was appointed a Flight Commander in No 77 Squadron flying the F/A-18. He was subsequently appointed as the Executive Officer and then Commanding Officer of 77 Squadron.

On promotion to Air Commodore, he served as Director-General Policy and Plans in Air Force Headquarters. Following promotion to Air Vice-Marshal he served in the posts of Head Policy Guidance and Analysis, Canberra, and Commander of the Integrated Area Defence System in Butterworth, Malaysia.

He was appointed as the Deputy Chief of Air Force and ex-officio member of the Board of DHA in January 2006.

MR WILLIAM BOWNESS BCOM FCPA FAPI FAICD

Mr Bowness is the founder, Chairman and Chief Executive Officer of Melbourne-based property developer Wilbow Corporation Pty Ltd. The company was established in 1976 and has subsequently opened branch offices in Brisbane, Queensland and Dallas, United States.

In addition to his role as Chairman and CEO of Wilbow Corporation, Mr Bowness has made various contributions to the Melbourne community over the past 25 years. In 1998 he was appointed Chairman of the Monash Gallery of Art Committee of Management.

Mr Bowness was appointed to the Board of DHA in April 2006 and is a member of the Board Property Committee.

MS ANNABELLE CHAPLAIN BA MBA FAICD

Ms Chaplain is Chairman of Honeycombes Property Group Pty Ltd, Acting Chairman of South East Queensland Water Corporation, and a non-executive director of National Leisure and Gaming Limited, as well as a number of private companies.

Previously, she has held directorships with Sunsuper Financial Services Pty Ltd, the Totalisator Board in Queensland, Ports Corporation of Queensland and various other entities, gaining experience as a non-executive director in a range of industry sectors.

With over twenty years' executive experience in investment banking, Ms Chaplain was until 2002 Local Managing Director and Head of Public Sector Client Management for ABN AMRO Australia Ltd and served on its Management Committee for Australia and New Zealand.

Ms Chaplain was appointed to the Board of the DHA in February 2005 and is a member of the Board Audit Committee.

RADM RUSSELL CRANE CSM

Deputy Chief of Navy

Rear Admiral Crane began his naval career as a Junior Recruit at HMAS Leeuwin in 1970. Following selection for officer training in 1972, he began training as a Seaman Officer serving in numerous RAN establishments and ships including HMA Ships ANZAC, DUCHESS, SYDNEY, STALWART, and BRISBANE. He specialised in Mine Warfare and Clearance Diving in 1977.

In 1983 he was promoted to Lieutenant Commander and appointed in command of HMAS CURLEW. Two and a half years later he was posted as the Staff Officer Minewarfare to the Commander Australian Minewarfare and Patrol Boat Forces.

In 1993 Commander Crane was posted as Commanding Officer HMAS DERWENT, a Destroyer Escort based in Western Australia. He decommissioned HMAS DERWENT in August 1994 and, on completion, returned to Navy Office Canberra for a short period, before being posted as the Director of the Maritime Intelligence Centre in Sydney in late 1994. Commander Crane was promoted to Captain in January 1996 and appointed as the Chief Staff Officer Command and Control, Communications and Intelligence in Maritime Headquarters.

Captain Crane assumed command of HMAS SUCCESS on 24 November 1998. He was promoted to Commodore in March 2000 and posted to Australian Defence Headquarters in Canberra as the Director-General Intelligence, Surveillance, Reconnaissance and Electronic Warfare. Promoted to

Rear Admiral in May 2004, he served as Director-General Coastwatch and the inaugural Commander of the newly-formed Joint Offshore Protection Command in January 2005. Rear Admiral Crane became the Deputy Chief of Navy and ex-officio member of the Board of DHA in June 2006.

MAJGEN MARK EVANS OAM DSC
Head Defence Personnel Executive

Major-General Evans joined the Australian Army in 1976, after serving five years in the British Army.

His early career was spent in a variety of regimental, instructional and operational staff postings, primarily in the 6th Battalion, The Royal Australian Regiment; Officer Cadet School, Portsea, and with Headquarters 3rd Brigade (Operational Deployment Force). In 1985 he served with the United Nations in the Middle East.

Following his attendance at the Australian Command and Staff College in 1988, he was posted as the Brigade Major of 3rd Brigade until 1991.

In 1992–93, Major-General Evans commanded the 6th Battalion, The Royal Australian Regiment.

In December 1998, Major-General Evans was posted to Townsville as Commander 3rd Brigade. Whilst holding this position, Major-General Evans commanded 3rd Brigade on operations in East Timor during Operation Warden. He was then posted to Canberra in January 2001 and served as the Director General Personnel-Army. Major-General Evans was promoted to his current rank in July 2002 and assumed command of the 1st Division at Gallipoli Barracks on 5 July 2002.

On 13 April 2004 Major-General Evans assumed the new position of Deputy Chief of Joint Operations at Headquarters Joint Operations Command in Sydney. In this role he was responsible to the Chief of Defence Force, for the conduct of ADF operations in the Middle East, East Timor, the Solomon Islands, and in Sumatra during the Tsunami disaster.

He was appointed as Head Defence Personnel Executive and ex-officio member of the DHA Board in July 2005.

MAJGEN IAN GORDON AO
Deputy Chief of the Army

Major-General Ian Gordon AO graduated from the Royal Military College, Duntroon in 1973 and was allocated to the Royal Australian Corps of Signals. He attended the Royal Military College of Science at Shrivenham, UK and completed the Army Command and Staff College course at Queenscliff in 1985.

Major-General Gordon was the Director of the Australian Army's Automated Tactical Command Support System Project from 1987 until 1989 and in 1990 he was posted to command the 1st Signals Regiment in Brisbane. In 1991 he commanded the first Australian Contingent with the UN Mission for a referendum in Western Sahara, MINURSO.

Major-General Gordon was Director of the Royal Australian Corps of Signals from 1993 until 1995 and in 1996 he attended the Australian College of Defence and Strategic Studies. In 1997 he was posted to the Defence Department's International Policy Division as the Director of United Nations and Peacekeeping. He was then appointed as Commandant of the Army Command and Staff College. In January 2000, Major-General Gordon assumed the appointment of Director-General Career Management – Army, and later that year was appointed as Director-General Personnel – Army.

In September 2001, Major-General Gordon was promoted to his current rank and posted to East Timor as the Deputy Commander, United Nations Transitional Authority in East Timor (UNTAET), Peace Keeping Force. In 2002 he returned to Australia to take up the appointment as Commander, Training Command – Army. He assumed his current appointment as Deputy Chief of the Army and ex-officio member of the Board of DHA in May 2004.

MRS MAUREEN GREET

Mrs Greet has consistently performed volunteer work with Defence families in each posting location. She has been a National Delegate for Defence Families Australia (previously National Consultative Group of Service Families) in both South Queensland and the Hunter Regions. During her term as National Delegate for South Queensland in 1999–2000, Mrs Greet received acknowledgement from the Chief of the Defence Force, Admiral Chris Barrie, for her dedication in supporting ADF families during the International Force East Timor (INTERFET).

Mrs Greet accepted her appointment as National Convenor of DFA on 30 August 2004 and was appointed as a DHA Director in December 2004.

THE HON WILLIAM LLOYD LANGE CPA

The Hon William Lloyd Lange had extensive experience in public practice as an auditor and an accountant before entering the NSW Parliament, where he had a successful career spanning 20 years. Some of his roles included serving as a Member of the Legislative Council of NSW, where he was Leader of the Opposition and Shadow Minister for Mineral Resources and Energy and Delegate to the Australian Constitutional Conventions in Hobart, Perth and Adelaide. Mr Lange was Chairman of the NSW Coal Compensation Board from 1988 to 1995. He is also a Director for the Abigroup Risk Management Services Ltd and serves as a Member of Council of the University of New England.

Mr Lange was appointed to the Board of DHA in April 2006 and is the Chairman of the Board Audit Committee.

DR RALPH NEUMANN PHD FAICD

Dr Neumann is a long-serving Commonwealth public servant who has spent his career in the Department of Defence. Currently he is First Assistant Secretary, Capability, Investment and Resources. He joined the Department of Defence in 1978. He was appointed to the Senior Executive Service in 1993 and since then has worked in policy areas relating to Defence capability, resources and the major capital equipment plan.

Dr Neumann was a member of the Defence Source Selection Board for over two years, and chaired the Defence Materiel Organisation Vehicles and Land Operations Governance Board for three years. He is currently the secretary to the Defence Capability Investment Committee (the senior capability-focused committee in Defence) and a member of the Defence Capability Committee. He is also a director of a private company.

Dr Neumann was appointed an ex-officio member of the Board of DHA in February 2002 and is a member of the Board Audit Committee.

MR WAYNE STOKES

Mr Stokes has more than 40 years experience in the Australian building and development industry.

Since 1980, Mr Stokes has been Managing Director of privately-owned NL Stokes Pty Ltd, a company founded by his father, and has earned a reputation as a respected developer of quality subdivisions in South Australia and Queensland. He has served the industry as National and State President of the Urban Development Institute of Australia, and is a National and State Life Member of that organisation.

Mr Stokes has also served on the Council and Housing Council of the Master Builders Federation of Australia, is a former President of the Master Builders Association of SA Inc and a former Chairman of the Association's Housing Committee. His service to the Australian Government includes

membership of the Board of the National Capital Authority and Chairmanship of the Indicative Planning Council for the Housing Industry (SA Division).

Mr Stokes was appointed to the Board of the DHA in June 2003 and is Chairman of the Board Property Committee.

Board Committees

BOARD AUDIT COMMITTEE

The Board Audit Committee (BAC) meets at least quarterly and reports to the full Board on its activities at least twice a year. During 2005–06, four meetings were held in Canberra.

During the reporting year, Committee Membership comprised:

Mr Tom O'Brien (Chairman, retired 16 December 2005)
 The Hon William Lloyd Lange (Chairman, appointed 13 April 2006)
 Mr John O'Grady (retired 26 November 2005)
 Dr Ralph Neumann
 Ms Annabelle Chaplain

Objectives:

The main objectives of the Board Audit Committee are:

- enhancing the management of DHA's internal control framework;
- ensuring DHA has in place appropriate Risk Identification and Management practices;
- improving the objectivity and reliability of significant financial reporting; and
- assisting the Board to comply with all governance and other obligations.

Attendance at Audit Committee meetings 2005–06

DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
The Hon Peter Jones	2	2
Ms Annabelle Chaplain	4	3
The Hon William Lloyd Lange	1	1
Dr Ralph Neumann	4	4
Mr Tom O'Brien	2	2
Mr John O'Grady	2	2

NOMINATION AND REMUNERATION COMMITTEE

During 2005–06, the nomination and remuneration committee met once.

During the reporting year, Committee Membership comprised:

The Hon Peter Jones (Chairman)
 Ms Annabelle Chaplain
 Mr Tom O'Brien (retired 16 December 2005)
 Mr John O'Grady (retired 26 November 2005)
 Mr Wayne Stokes

Functions:

The main functions of the Committee are to advise Ministers on the skills and experience necessary for new Directors, provide assistance to the Board in relation to the review of the Managing Director's performance and remuneration, and to ensure the provision of appropriate induction and continuing education programs for Directors.

Attendance at Nomination and Remuneration Committee Meetings 2005–06

DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
The Hon Peter Jones	1	1
Ms Annabelle Chaplain	1	1
Mr Tom O'Brien	1	1
Mr John O'Grady	1	1
Mr Wayne Stokes	1	1

PROPERTY COMMITTEE

The Property Committee was established by the Board in 2003 and meets quarterly and additionally as required. During 2005–06, it met five times.

During the reporting year, Committee Membership comprised:

Mr John O'Grady (Chairman, retired 26 November 2005)

Mr Wayne Stokes (Chairman, appointed 13 April 2006)

The Hon Peter Jones

Mr William Bowness

Functions:

The key function of the Committee is to act in an advisory capacity to the Board on major property transactions, including:

- land purchases or disposals that require Board approval (over \$5 million); and
- property projects that are environmentally or politically sensitive or carry a high level of risk.

Attendance at Property Committee Meetings 2005–06

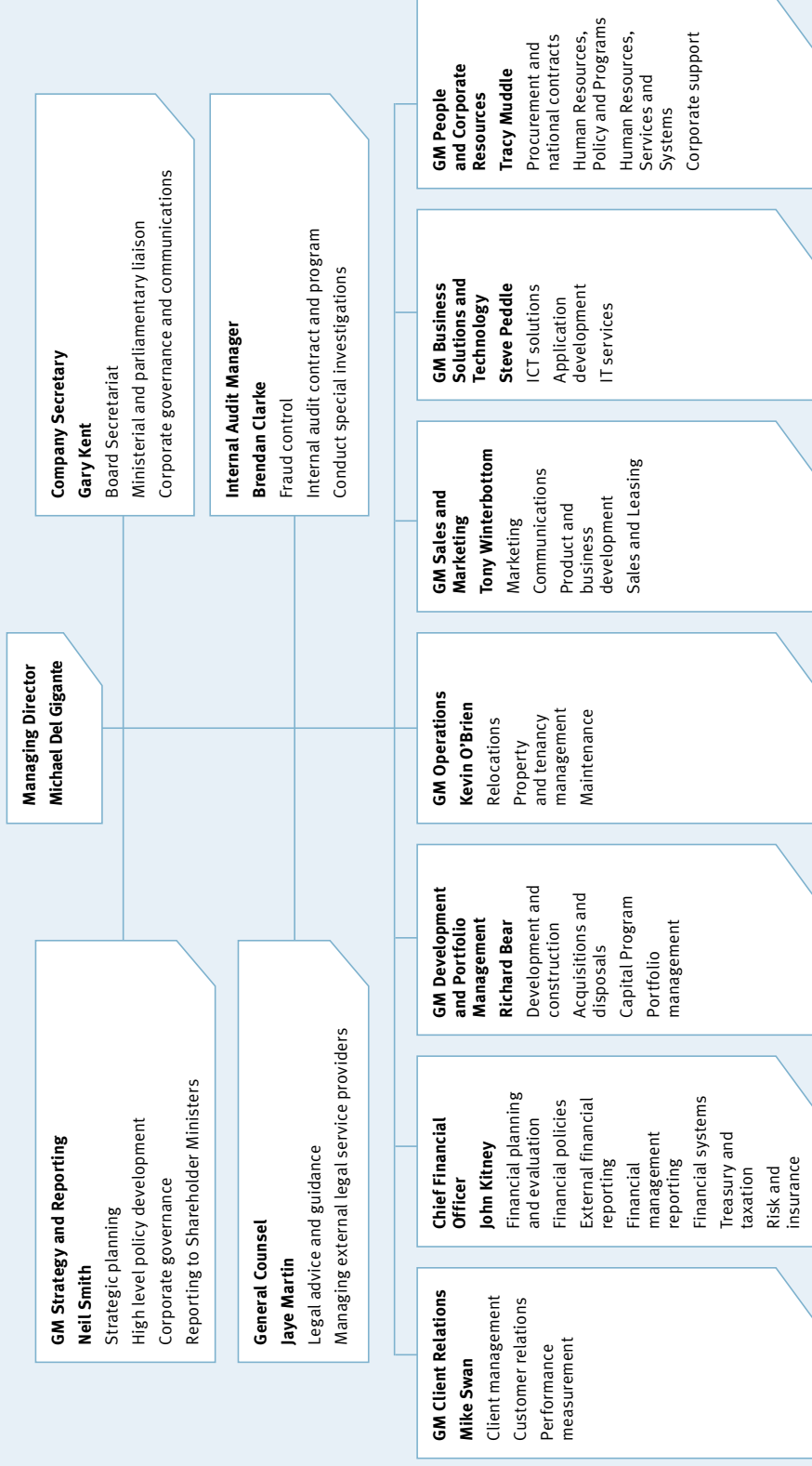
DIRECTORS	ELIGIBLE TO ATTEND	ATTENDED
Mr John O'Grady	2	2
Mr Wayne Stokes	5	4
The Hon Peter Jones	5	5
Mr William Bowness	1	1

BOARD EVALUATION AND REVIEW

The DHA Board has agreed that there should be regular reviews of Board performance and processes.

The assessment also provides independent confirmation that the Board, as a decision-making body, is working within the principles and practices of good governance as detailed in the Board's Charter.

DHA's organisational and reporting structure



The Executive Team

RICHARD BEAR

General Manager, Development and Portfolio Management

Mr Bear has been General Manager, Development and Sales, since joining DHA in January 2000. In 2006 his focus has turned to DHA's Development and Portfolio Management. His early career was in the insurance industry, during which time he held various executive positions in Melbourne, New Zealand and the United Kingdom.

In 1981 he was appointed Director, Insurance, with the Defence Service Homes Organisation. In 1992 he was appointed Assistant Secretary in the Department of Veterans' Affairs, responsible for the department's financial accounting and management activities. In 1998 Mr Bear held the position of General Manager of the Child Support Agency.

His past experience has included executive responsibility for financial management, Information technology and human resources management.

Mr Bear has a Bachelor of Commerce degree with a major in Accounting from Otago University, New Zealand.

At DHA his responsibilities include the development and construction of DHA housing, DHA's acquisitions and disposals programs, Capital Program and Portfolio management.

GARY KENT

Company Secretary

Mr Kent was appointed Company Secretary of DHA in 2003. Previously he worked in the Australian Public Service before occupying positions as Adviser and Chief of Staff to several Federal Ministers.

Mr Kent has Bachelors degrees in Commerce and Law from the University of Melbourne and a Graduate Diploma in Public Law from the Australian National University. He is a Graduate of the Australian Institute of Company Directors.

At DHA his responsibilities include General Counsel, Ministerial and Parliamentary liaison, and communications. He is also Secretary to the DHA Board.

Brendan
Clarke

Tony
Winterbottom

Neil
Smith

John
Kitney

Kevin
O'Brien

Jaye
Martin

Tracy
Muddle

Richard
Bear

Michael
Del Gigante

Mike
Swan

Steve
Peddle

Gary
Kent



JOHN KITNEY

Chief Financial Officer

Mr Kitney joined DHA in February 2004, before which he was General Manager, Finance, for Sydney Water Corporation. He has held similar positions with the National Rail Corporation Limited, the Maritime Services Board of NSW, and the University of New South Wales.

Mr Kitney has a Diploma in Commerce (NSWIT) and a Master of Business Administration degree (University of Sydney). He is a Fellow of CPA Australia and of the Australian Institute of Company Directors. Mr Kitney is also a director of the Theatre of Image. He is a past director of Company B at Belvoir Street and the Australian National Playwrights Centre.

At DHA his responsibilities include financial planning and evaluation, financial policies, external financial reporting, financial management reporting, financial systems, treasury and taxation and risk and insurance.

BRENDAN CLARKE

Internal Audit Manager

Mr Clarke was the Senior Operations Auditor with Woodside Australian Energy in Western Australia for eight years, on the North West Shelf Gas Project. He was also the Chief Internal Auditor for Post and Telecommunications in Papua New Guinea for three years and extended his contract for another two years, serving in such positions as Executive Manager Commercial Accounts, Inventory Control Manager and Management Accountant for the Supply Base. Mr Clarke returned to Australia in 1993 and took up a position as Internal Audit Manager with the Civil Aviation Safety Authority in Canberra. During this period, Mr Clarke was asked to act as the Corporate Accountant for one year. In March 2003, he moved to his current position as Internal Audit Manager with DHA.

Mr Clarke is an FCPA, a Graduate of the Australian Institute of Company Directors, a Branch Councillor with the Institute of Internal Auditors (MIIA), and passed with high distinctions as an Audit Team Leader for Quality Assurance Systems. He has also attained the award of Certificate IV in Government (Fraud Control Investigator).

At DHA his responsibilities include fraud prevention and investigation, managing the Internal Audit Contract and Internal Audit Annual and Strategic Program and conducting special management initiated investigations.

JAYE MARTIN

General Counsel

Ms Martin joined DHA in mid 2004 and relocated to Canberra from Sydney in January 2005. Her early training was at Freehill Hollingdale and Page, initially in Perth, then in Sydney, where her work included commercial property law and land acquisition for the Darling Harbour Authority.

Ms Martin has had extensive commercial and corporate law experience on a range of issues and transactions whilst working in senior legal positions with IBM and as Legal Counsel and as part of the management team in the ICT company Wang, more recently named Getronics.

Her qualifications include a Bachelor of Laws and Bachelor of Commerce at the University of NSW. Ms Martin also holds an ACT Practising Certificate under the Legal Profession Act.

At DHA her responsibilities include the provision of legal advice and guidance to the Managing Director, Board and Executive, provision of legal assistance in relation to transactions, joint ventures and other contractual arrangements, and managing general external legal service providers.

TRACY MUDDLE

General Manager, People and Corporate Resources

Ms Muddle joined DHA in September 2004 and is the General Manager, People and Corporate Resources. Her qualifications include Bachelor of Management in Professional Studies, Graduate Certificate in Management and Diploma of Applied Science. Ms Muddle is currently studying to complete her Masters of Business Administration.

Ms Muddle commenced and developed her career in the New South Wales Public Service before transferring to the Australian Government in May 2000 when she joined the Department of Finance and Administration. She held several senior positions within the Department, including in the Ministerial and Parliamentary Services Group, and was selected to lead the team attached to the Building and Construction Industry Royal Commission in Melbourne as the Director, Corporate Services. Following the Royal Commission assignment, Ms Muddle returned to the Department of Finance and Administration as the Branch Manager, Human Resource Services.

At DHA, her responsibilities include managing the People and Corporate Resources business area which incorporates Human Resources, Corporate Support and Procurement and National Contracts.

KEVIN O'BRIEN

General Manager, Operations

Brigadier O'Brien joined DHA in 2002, and is currently the General Manager Operations.

Mr O'Brien graduated from the Royal Military College Duntroon in 1968 and served in South Vietnam in 1970–71. He was selected to attend prestigious year-long courses in the UK and Australia. He commanded 8/12th Medium Regiment in 1985–86 and, on promotion to Colonel, he commanded 1st Divisional Artillery. In 1994 he was promoted to Brigadier as the Director-General of Defence Force Recruiting and later served as Director-General of Personnel Policy and Chairman of the Army Health Benefits Society. From 1997–98, he was seconded to the Department of Veterans' Affairs to head the project to establish a memorial park in France as Australia's contribution to the 80th anniversary of the end of World War I.

Following retirement from the Army in 1998, Brigadier O'Brien was appointed to the Board of the Sydney Harbour Federation Trust, a position he still holds today.

At DHA his responsibilities include relocations for ADF members and their families, property and tenancy management including repairs and maintenance services, and development of concepts for the improvement of DHA's operational services.

STEVE PEDDLE

General Manager, Business Solutions and Technology

Mr Peddle joined DHA in 2005 to head the Business Solutions and Technology team. Just before joining DHA, Mr Peddle held the position of Chief Technology Officer at TransACT Communications. Some of his duties included the management of a 110 channel digital television broadcast centre, the management of 30,000 customer connections, as well as the interconnectivity of multiple Internet service providers.

Prior to his position at TransACT, he also held positions at SMS Consulting, PRAXA Limited, Fujitsu Australia/Bell Atlantic and Wang Australia.

Mr Peddle has over twenty years industry experience and has extensive skills in the management of ICT services including outsourcing, infrastructure, e-business, telecommunications and broadcast video.

At DHA his responsibilities include the management and selection of all ICT solutions including an Australia wide communications network and a 900 user Australia-wide voice over IP network, and the management of an extensive application development and services team.

NEIL SMITH***General Manager, Strategy and Reporting***

Air Vice-Marshal Smith retired from the Royal Australian Air Force in January 2001 and joined DHA in the following month. In an Air Force career that spanned 39 years, he held a wide variety of operational and staff appointments, including Support Commander Air Force, with associated responsibility for the logistic support for all Australian military aircraft, and Officer Commanding RAAF Base Pearce, the country's busiest military flying base.

Air Vice-Marshal Smith has a Bachelor of Aeronautical Engineering from the University of Sydney and is a graduate of RAAF Staff College and the National Defence College of India. He is a member of both the Order of Australia and the Order of the British Empire, and a Fellow of both the Royal Aeronautical Society and the Australian Institute of Company Directors.

At DHA his responsibilities include strategic planning, high level policy development, corporate governance, and reporting to Shareholder Ministers.

MIKE SWAN***General Manager, Client Relations***

Brigadier Swan joined the Executive team at DHA in September 2004 following a 35 year career in the Regular Army. He brings to DHA a wide knowledge of the Defence organisation having served mainly on the joint staff and most recently in the Corporate Services and Infrastructure Group. Particular highlights of his service career included command of the Peace Monitoring Group on Bougainville in 2001 and an extended period as acting Head of National Operations Division.

At DHA his responsibilities include client management, customer relations, and performance measurement.

TONY WINTERBOTTOM***General Manager, Sales and Marketing***

Mr Winterbottom joined DHA in early 2006 to head the new area of Marketing and Business Development. Before joining DHA he has held senior management positions in marketing, product development and sales with ADI Limited, ActewAGL, TransACT, IBM, Maxwell Technologies and CalComp, a Lockheed Martin company.

Mr Winterbottom has over eighteen years experience in his field, including five years based in Southern California as Director, Worldwide Marketing, for a global technology manufacturing company. He also managed profit and loss operations throughout Asia Pacific for the same company and has extensive business experience in Hong Kong, Japan, South Korea, People's Republic of China and South East Asia.

Directly prior to joining DHA, Mr Winterbottom led marketing for TransACT Communications. He then managed all product development and led residential sales for ActewAGL.

At DHA his responsibilities include marketing, product development and management, and business development.

Internal and external review

DHA is subject to a range of internal and external reviews of all processes, which collectively ensure the business is operating in accordance with governing laws and procedures and best practice.

INTERNAL AUDIT

During 2005–06, KPMG conducted DHA's Internal Audits. This is the fourth year KPMG has performed this function for DHA. DHA has the option to renew the contract for another year.

RISK MANAGEMENT

Robust risk management is integral to DHA's business operations. DHA's Strategic Risk Management Plan is based on the methodology set out in the Australian/New Zealand Standard AS/NZS 4360:2004. It addresses both governance and business risks, is updated annually and is approved by the Board with endorsement by the BAC.

FRAUD PREVENTION MEASURES

DHA undertakes a regular Fraud Risk Assessment (FRA) consistent with the requirements of the Commonwealth Fraud Control Guidelines 2002.

The FRA identifies areas within DHA that are potentially at risk from fraudulent or corrupt practices.

The DHA Fraud Control Plan (FCP) is based on the FRA and summarises fraud control strategies to meet the Australian Government's requirements for fraud prevention, detection, investigation, prosecution and civil rights/privacy processes. The FCP also provides guidance to agency staff on action to be taken to deter fraud and to detect fraud when it occurs.

The FRA and FCP were prepared in accordance with Australian/New Zealand Standard AS/NZS 4360:2004 and are available to managers and staff via DHA's intranet. DHA treats fraud seriously and has guidelines on 'whistleblowers' in the FCP that reflect best practice. DHA's Risk Manager provides annual updates to the BAC on the prevailing internal controls of DHA's systems and on efforts to mitigate exposure to fraud.

PARLIAMENTARY COMMITTEES AND GOVERNMENT INQUIRIES

The *Public Works Committee Act 1969* requires that public works for the Commonwealth which are estimated to cost more than \$6 million must be referred to the Joint Standing Committee on Public Works (PWC).

Following consideration of the work by the PWC, the House of Representatives must pass an expediency motion before the work can commence.

During 2005–06, DHA officers met with members of the PWC to brief them on current and future DHA activities.

In March 2006, DHA provided a submission to the PWC in relation to a proposed development at Fairview Rise, Ipswich, Queensland, for the construction of Defence housing. Following a public hearing on 16 May 2006, the Committee recommended that the project proceed at a cost of \$50.7 million. The House of Representatives passed an expediency motion approving the project on 22 June 2006.

FREEDOM OF INFORMATION

Like all other Australian Government organisations, DHA is required to comply with the *Freedom of Information Act 1982* (FOI Act). During 2005–06, two requests were made for access to certain information under the FOI Act. In one case, after consideration by DHA's Freedom of Information Officer, the requested information was made available to the relevant applicant. A decision in relation to the access sought in the other case was pending at year's end.

PRIVACY

We take our custodianship of information on our staff and customers very seriously and adhere to the policies and procedures for information release, as detailed in the *Privacy Act 1988* and overseen by the Office of the Federal Privacy Commissioner. DHA lodges an annual Personal Information Digest entry with the Office of the Federal Privacy Commissioner.

COMMONWEALTH OMBUDSMAN

The Commonwealth Ombudsman referred 29 issues to DHA during 2005–06. In most cases the matter was resolved through informal liaison and consultation with Investigation Officers and the complainants.

THE COURTS AND ADMINISTRATIVE TRIBUNALS

During the reporting period, there were no judicial decisions or decisions of administrative tribunals that had a significant impact on the operation of DHA.

CONSULTANCY SERVICES

DHA engages the services of a limited number of companies and consultancy services. A summary list of such consultancies is presented to the BAC on a six-monthly basis.

INDEMNITIES AND INSURANCE

DHA maintains 'Directors and Officers Liability' insurance cover. The insurance covers DHA Directors and officers in respect of losses or liability (including legal expenses) that an officer may be legally obliged to pay in certain circumstances. The policy incorporates some exclusions, including circumstances where indemnity is not legally permitted or in respect of dishonesty or conduct arising out of a lack of good faith.

ANNUAL REPORT AND CORPORATE DOCUMENTS

In accordance with the *Commonwealth Authorities and Companies Act 1997* and the *Public Service Act 1999*, DHA prepares an Annual Report. DHA's Annual Report is available free of charge on request from DHA. This report is also available for download from DHA's website www.dha.gov.au

DHA also prepares a Corporate Plan and Statement of Corporate Intent in accordance with the *Commonwealth Authorities and Companies Act 1997*. Financial statements prepared by DHA are subject to audit by the Australian National Audit Office.

DHA WINS SILVER AND GOLD AWARDS FOR EXCELLENCE IN REPORTING

DHA was recognised for its excellence in reporting for its 2004–05 Annual Report. We were awarded a ‘gold’ award at the 2006 Institute of Public Administration Australia (IPAA) Annual Report Awards, held in May 2006. The award recognised DHA as the sole ‘gold’ winner in the *Commonwealth Authorities and Companies Act* category.

DHA also won a ‘silver’ award at the Australasian Reporting Awards (ARA) held in Sydney in June 2006. The ARA awards benchmark annual reports against a range of criteria, and are awarded based on world best-practice guidelines in annual reporting. As a Government Business Enterprise (GBE) we take our reporting obligations and corporate governance very seriously. It was rewarding to receive professional recognition for our public accountability and reporting standards.

Commonwealth Disability Strategy

Wherever possible, DHA ensures that policies, programs and services are as accessible to people with disabilities as they are to every other member of the Australian community. As a GBE, DHA strives to meet the requirements of the *Disability Discrimination Act 1992*.

In 2005–06, DHA assisted a number of employees and prospective employees with disabilities, through provision of:

- assistance during the recruitment process;
- appropriate working accommodation and environment for the staff member;
- appropriately trained contact officers to assist with any work-related issues;
- part time or other flexible working arrangements, when required; and
- appropriate assistance with skills development.

ROLE AS AN EMPLOYER

DHA seeks to have a highly skilled and highly motivated workforce, and we ensure that our workplace procedures and practices support equitable working conditions for all staff.

DHA is an equal opportunity employer. We use a fair and transparent recruitment process to ensure that equitable and non-discriminatory consideration is given to all applicants. Recruitment information is available in a range of formats to ensure that all applicants have access to this material.

ROLE AS A SERVICE PROVIDER

DHA works with the Defence Community Organisation (DCO) and the Defence’s Directorate of Entitlements (DE) to ensure that ADF members and families with special needs have access to a fair and equitable process for relocation and modification of DHA homes.

Any housing modifications are undertaken in consultation with the ADF member and their family to ensure that the home meets their needs. This process is managed by a designated case manager in each region.

DHA BUSINESS SOLUTIONS

During 2005–06, the Defence Housing Authority reviewed its approach to the delivery of Information and Communications Technology (ICT). The aim of the review was to better align DHA's technology-related solutions to help achieve Corporate Plan objectives.

These changes to DHA's approach to ICT delivery have been reflected in the organisation's management structure as well as through changes to policies, guidelines and methodologies. The business area managing DHA's ICT delivery is now called Business Solutions and Technology (BS&T).

The new approach has provided DHA with a more responsive and flexible delivery of development support activities, many of which were previously outsourced. Examples of projects that were developed and delivered under the new BS&T model during 2005–06 include:

- DHA's external website;
- DHA's intranet site;
- a website application to support the singles trial in Darwin;
- a website application for our Portfolio Sale and Leaseback tender;
- an online staff directory; and
- the final phase of a Tenancy and Property Management System.

Tenancy and Property Management System

DHA's Tenancy and Property Management System (TPMS) commenced operation in August 2005. TPMS is an integration of DHA's Tenancy Management System (through which our customer relocations and relationship data is managed) and a new Property Management System (which manages our lessors' assets and portfolios).

This integrated solution has resulted in a sharing of information between the two systems, and provides increased support in the areas of property management, repairs, leasing and estate management.

The change to TPMS from DHA's previous property management system, known as 'context', is intended to provide us with higher levels of support from the program developers, and the ability to be more responsive to our changing business needs.

In line with BS&T's business strategy, the future will see a tenancy and property management system that is even more closely aligned. The proposed delivery of online services will allow our stakeholders to interact directly with the system via the internet, providing the ability to extract statements, obtain work orders and invoice DHA – all via the web.

Providing online services to our customers

As part of DHA's commitment to providing quality customer service, systems and processes improvements are regularly reviewed, taking into account available and emerging technology, as well as customer feedback.

ONLINE APPLICATION FOR RELOCATION

During the year DHA developed a new online Application For Relocation (AFR). This new service will allow ADF members to submit their relocation details online, instead of using paper-based forms. This service will be available via the DHA website in early August 2006, and will provide a quicker and more efficient process for our customers.

A major benefit of this online service will be improved data quality and accuracy, with performance of quality control checks before the form is submitted. This will greatly reduce the time taken to process customers' applications.

Customer surveys indicated a strong support for this type of online service, and we have consulted with our key stakeholders, including the Department of Defence and Defence Families Australia, in its development.

Future stages of development of the online AFR may include more complex system enhancements that allow the AFR data to be directly fed into the TPMS, which has the potential to further improve data quality and reduce processing time.

WEBSITE REDEVELOPMENT

DHA has introduced a new web Content Management System (CMS) to improve web-service delivery. The CMS complies with Australian and international web standards and assists DHA in fulfilling its obligations with respect to record-keeping and version control. It also ensures that services are readily available to all DHA staff, ADF members and the broader community, including people with disabilities.

DHA's public website and intranet site were redeveloped to coincide with the introduction of the CMS.

User testing conducted since the redevelopment of the DHA public website has found that the content on the website is clear and that information is easy to read. The focus group also commented on the changes to the information architecture, stating that the redeveloped site is easier to navigate.

A new web-governance model was also introduced to streamline the online publishing process and to clearly define the roles of subject matter experts in the various business units. Our new publishing model features decentralised authoring, allowing the subject matter experts to actively participate in content management through easy-to-use tools.

DHA BUSINESS IMPROVEMENTS

The Defence Housing Authority made a number of improvements to its business processes in 2005–06.

In addition to the introduction of business solutions such as the online Application For Relocation, Tenancy and Property Management System, and the redevelopment of our key internal communication tools, there was a strong focus on DHA's procurement processes throughout the year.

REVIEW OF DHA'S PROCUREMENT PROCESSES

DHA has commenced a program of annual procurement review visits to its Housing Management Centres as part of an awareness and education program. The reviews are designed to support the delivery of best practice procurement processes.

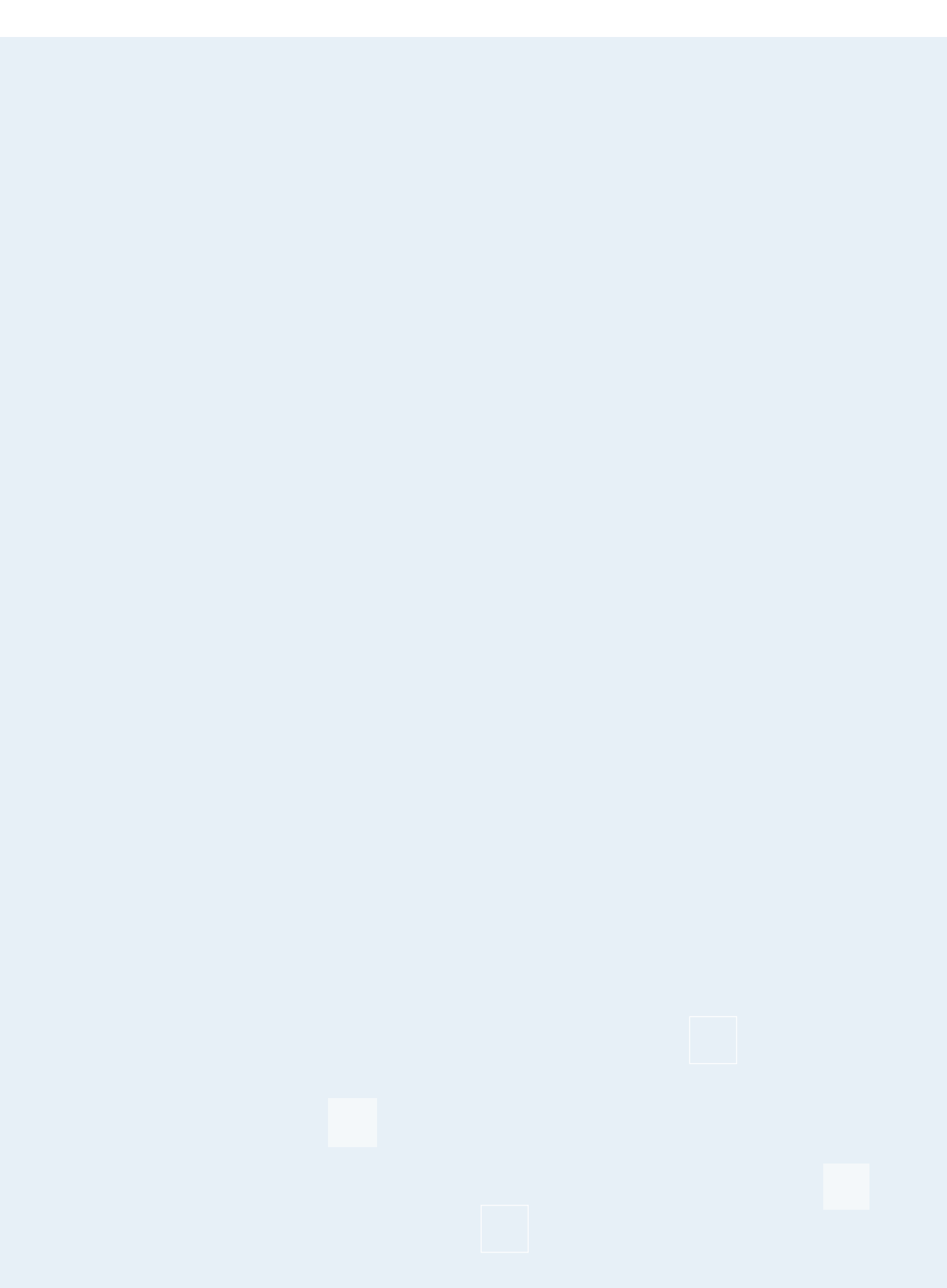
CENTRALISED MANAGEMENT OF DHA OFFICE LEASES

Office leases for the buildings occupied by DHA across Australia (31 leases and six sub-leases) are now centrally managed. This is part of a larger contract program designed to deliver best practice procurement processes.

FLEET MANAGEMENT AGREEMENT (FMA)

In January 2006, after completing an internal and an independent vehicle fleet review, DHA signed an Australian Government Fleet Monitoring Body Vehicle Fleet Management Agreement (FMA) with the Department of Finance and Administration.

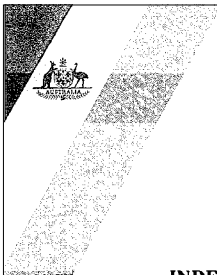
Under the FMA, DHA will save on vehicle lease and operating costs. Vehicle fleet provisions will be more transparent than previous arrangements and all future lease vehicles will be provided by LeasePlan.



FINANCIAL STATEMENTS



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INDEPENDENT AUDIT REPORT

To the Minister for Defence and Special Minister for State

Matters relating to the Electronic Presentation of the Audited Financial Statements

This audit report relates to the financial statements published in both the annual report and on the website of the Defence Housing Authority for the year ended 30 June 2006. The directors are responsible for the integrity of both the annual report and the web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial statements.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Defence Housing Authority's annual report.

Scope

The financial statements and Directors' responsibility

The financial statements comprise:

- Statement by Directors;
- Income Statement, Balance Sheet, Statement of Cash Flows and Statement of Changes in Equity;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

of the Defence Housing Authority for the year ended 30 June 2006.

The directors of the Defence Housing Authority are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Defence Housing Authority, and that comply with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and Accounting Standards and mandatory financial reporting requirements in Australia. The directors of the Defence Housing Authority are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional

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

judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Defence Housing Authority's financial position, and of its financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the directors.

Independence

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

Audit Opinion

In my opinion, the financial statements of the Defence Housing Authority:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Defence Housing Authority's financial position as at 30 June 2006 and of its performance and cash flows for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



Michael White
Executive Director
Delegate of the Auditor-General
Canberra
28 August 2006

DEFENCE HOUSING AUTHORITY

STATEMENT BY DIRECTORS

In our opinion, the attached financial statements for the year ended 30 June 2006 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

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

This statement is made in accordance with a resolution of the Directors of the Defence Housing Authority.



The Hon W Lloyd Lange
Director

28 August, 2006



Michael Del Gigante
Managing Director

28 August, 2006

Income Statement
For the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
INCOME			
Revenue			
Housing services provided	5	367,107	360,661
Relocation services provided	6	72,197	69,269
Sales of inventories		358,026	222,913
Interest	7	12,587	5,169
Total Revenue		809,917	658,012
Gains			
Net gains from disposal of investment properties	8	44,622	56,510
Other income		2,778	905
TOTAL INCOME		857,317	715,427
EXPENSES			
Employee expenses	9	43,649	44,758
Housing services lease rentals		178,002	165,736
Rates, repairs and maintenance		58,672	55,054
Depreciation and amortisation	10	11,116	11,304
Defence Member relocation services		58,480	55,266
Cost of inventories		330,921	200,195
Borrowing costs	11	22,332	20,530
Write-down and impairment of assets	12	25,934	–
Other expenses		27,636	24,696
TOTAL EXPENSES		756,742	577,539
OPERATING RESULT		100,575	137,888

The above statement should be read in conjunction with the accompanying notes.

Balance Sheet

As at 30 June 2006

	Notes	2006 \$'000	2005 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	13	209,362	226,786
Trade and other receivables	14	35,848	26,908
Other financial assets	15	26,463	18,863
Inventories	16	238,897	228,843
		510,570	501,400
Investment properties for sale	20	37,497	45,082
Total Current assets		548,067	546,482
Non-current assets			
Inventories	16	399,191	391,440
Other financial assets	19	129,989	202,468
Plant and equipment	18	16,048	20,795
Investment properties	17	435,798	365,301
Total Non-current assets		981,026	980,004
TOTAL ASSETS		1,529,093	1,526,486
LIABILITIES			
Current liabilities			
Trade and other payables	21	42,006	32,881
Borrowings	22	70,000	35,000
Other financial liabilities	23	4,590	15,382
Provisions	24	9,432	6,922
Total Current liabilities		126,028	90,185
Non-current liabilities			
Borrowings	22	270,000	340,000
Other financial liabilities	23	14,250	14,250
Provisions	24	62,711	58,522
Total Non-current liabilities		346,961	412,772
TOTAL LIABILITIES		472,989	502,957
NET ASSETS		1,056,104	1,023,529
EQUITY			
Contributed equity		249,148	249,148
Retained surpluses		806,956	774,381
TOTAL EQUITY		1,056,104	1,023,529

The above statement should be read in conjunction with the accompanying notes.

Statement of Cash Flows
For the year ended 30 June 2006

	Notes	2006 \$'000	2005 \$'000
Cash flows from operating activities			
Cash received			
Sales of goods and services		399,788	439,169
Sales of inventories		353,178	223,125
Interest		11,302	5,146
Other		2,797	766
Total cash received		767,065	668,206
Cash used			
Suppliers		312,839	285,133
Acquisition of inventories		413,700	404,818
Employees		41,165	44,290
Interest		22,332	20,530
Total cash used		790,036	754,771
Net cash from operating activities	25	(22,971)	(86,565)
Cash flows from investing activities			
Cash received			
Sales of investment properties		68,563	136,209
Sales of plant and equipment		-	8
Defence finance leases – principal repayments		71,701	112,890
Total cash received		140,264	249,107
Cash used			
Acquisition of investment properties		8,402	29,204
Acquisition of plant and equipment		10,156	4,035
Acquisition of Defence finance lease properties		13,159	13,941
Total cash used		31,717	47,180
Net cash from investing activities		108,547	201,927
Cash flows from financing activities			
Cash received			
Proceeds from debt		-	75,000
Total cash received		-	75,000
Cash used			
Repayment of debt		35,000	-
Dividends paid		68,000	70,672
Total cash used		103,000	70,672
Net cash from financing activities		(103,000)	4,328
Net increase/(decrease) in cash held		(17,424)	119,690
Cash at 1 July 2005		226,786	107,096
Cash at 30 June 2006		209,362	226,786

The above statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity
For the year ended 30 June 2006

	Accumulated Results		Other Reserves		Contributed Equity/Capital		Total Equity	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Opening Balance	774,381	706,165		1,000	249,148	249,148	1,023,529	956,313
Adjustment for errors	-	-	-	-	-	-	-	-
Adjustment for changes in Accounting policies	-	-	-	-	-	-	-	-
Adjusted Opening Balance	-	-	-	-	-	-	-	-
Income and Expense								
Net Operating Result	100,575	137,888	-	-	-	-	100,575	137,888
Total income & expenses	100,575	137,888	-	-	-	-	100,575	137,888
Transactions with Owners								
Distributions to Owners								
Returns on Capital	-	-	-	-	-	-	-	-
Dividends	(68,000)	(70,672)	-	-	-	-	(68,000)	(70,672)
Contributions by Owners	-	-	-	-	-	-	-	-
Sub-total Transactions with Owners	(68,000)	(70,672)	-	-	-	-	(68,000)	(70,672)
Transfers between equity components	-	1,000	-	(1,000)	-	-	-	-
Closing balance at 30 June	806,956	774,381	-	-	249,148	249,148	1,056,104	1,023,529

The above statement should be read in conjunction with the accompanying notes.

Schedule of Commitments
For the year ended 30 June 2006

BY TYPE	2006	2005
	\$'000	\$'000
Capital commitments		
Inventories – construction commitments ¹	48,830	83,545
Total capital commitments	48,830	83,545
Other commitments		
Housing lease rentals ²	1,192,685	1,035,549
Other ³	19,963	21,991
Total other commitments	1,212,648	1,057,540
Net commitments by type	1,261,478	1,141,085
BY MATURITY		
Capital commitments		
One year or less	37,268	80,915
From one to five years	11,562	2,630
Over five years	–	–
Total capital commitments	48,830	83,545
Operating lease commitments		
One year or less	188,482	174,778
From one to five years	637,269	570,313
Over five years	388,616	312,449
Total operating lease commitments	1,214,367	1,057,540
Commitments receivable⁴	1,719	–
Net commitments by maturity	1,261,478	1,141,085

NB: Commitments are GST inclusive where relevant.

- 1 Outstanding contractual payments for building under construction.
- 2 Outstanding payments due on properties leased under sale and leaseback program.
- 3 Operating leases included are effectively non-cancellable and comprise:

Nature of Lease	General description of leasing arrangement
Leases for office accommodation	Lease payments are subject to annual increase in accordance with upward movements in the consumer price index. Remaining lease terms are between one and seven years plus options to renew where available.
Agreements for the provision of motor vehicles to staff	No contingent rentals exist. There are no renewal or purchase options available to the Authority.

- 4 Amount receivable on sub-let commercial property

The above statement should be read in conjunction with the accompanying notes.

Schedule of Contingencies

For the year ended 30 June 2006

Contingent liabilities	Guarantees		Claims for damages/costs		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance from previous period	227	1,587	-	202	227	1,789
New	795	-	-	-	795	-
Re-measurement	-	-	-	(202)	-	(202)
Obligations expired	(227)	(1,360)	-	-	(227)	(1,360)
Total Contingent Liabilities	795	227	-	-	795	227

Contingent assets	Guarantees		Claims for damages/costs		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance from previous period	-	-	-	660	-	660
New	-	-	-	-	-	-
Re-measurement	-	-	-	(660)	-	(660)
Assets – crystallised	-	-	-	-	-	-
– expired	-	-	-	-	-	-
Total Contingent Assets	-	-	-	-	-	-
Net Contingent Liabilities					795	227

Details of each class of contingent liabilities and assets, including those not included above because they cannot be quantified or are considered remote, are disclosed in Note 36 Contingent Liabilities.

The above statement should be read in conjunction with the accompanying notes.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

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1. Summary of Significant Accounting Policies

1.1 BASIS OF ACCOUNTING

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) (being the Financial Management and Accountability Orders (*Financial Statements for reporting periods ending on or after 01 July 2005*);
- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and
- Interpretations issued by the AASB and UIG that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The 2004–05 comparatives have been restated under AEIFRS and the impacts are disclosed in Note 2.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with 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 report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 36).

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the accounting policies listed in this note, DHA has made the following judgement that has the most significant impact on the amounts recorded in the financial statements:

- The net realisable value of completed inventory properties has been assessed by an independent valuer. Where the assessed value for an individual property is less than its cost, the carrying value of the property is written down to net realisable value.

No 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.

1.3 STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards, which include AEIFRS.

Australian Accounting Standards require DHA to disclose Australian Accounting Standards that have not been applied, in respect of standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards. These amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The following table illustrates standards and amendments that will become effective for DHA in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on DHA's initial assessment at this date, but may change. DHA intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact.
2005-5	AASB 1 and AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease. Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact.
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact.
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact.
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact.
	AASB7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact.

1.4 REVENUE

All revenues are accounted for on an accrual basis.

Interest revenue is recognised on an accrual basis taking into account the interest rates applicable to the financial assets.

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

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. Provisions are made when collectability of the debt is judged to be less rather than more likely.

1.5 GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- a. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- b. receivables and payables which are recognised inclusive of GST.

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

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

1.6 EMPLOYEE BENEFITS

As required by the Finance Minister's Orders, DHA has early adopted AASB 119 Employee Benefits as issued in December 2004.

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 that is, wages and salaries, annual leave etc, expected to be settled within 12 months of the reporting date) and termination benefits due within twelve months 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.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of DHA is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including DHA's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to Chapter 4C of the Finance Minister's Orders 2005–2006. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation. The non-current portion of the liability for long service leave in respect of all employees at 30 June 2006, is recognised and measured at the present value of the estimated future cash flows, based on the short hand method provided in Chapter 4C of the Finance Ministers Orders 2005–2006.

Separation and Redundancy

Provision is made for separation and redundancy benefit payments.

Superannuation

Staff of DHA are members of the Commonwealth Superannuation Scheme (CSS), and the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes of the Commonwealth. The PSSap is a defined contribution scheme.

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.

DHA makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the Authority's employees as they fall due.

From 1 July 2005 new employees are eligible to join the new PSSap Scheme, which is a defined contribution scheme.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.7 LEASES

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. Operating leases result in the lessor substantially retaining all such risks and benefits of the asset.

Operating Lease

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

DHA has three categories of operating leases:

- a. residential properties (mostly acquired through the sale and leaseback program) for the housing of Australian Defence Force members, under the Services Agreement on Housing and Related Matters (Services Agreement) between the Authority and the Commonwealth Department of Defence (Defence);
- b. commercial property for the administration of the Authority; and
- c. plant and equipment, mainly IT/office equipment.

Finance Lease

DHA does not have any finance leases payable. However, the Authority does finance on-base housing construction and certain off-base properties for Defence, under annuity arrangements provided for in the Services Agreement. Monthly payments are split – principal amounts are credited against the relevant receivable and the interest component is recorded as Other Income under Housing Services Revenue.

1.8 SALE AND LEASEBACK PROVISION

AASB 117 requires that where a sale and leaseback transaction involves a leaseback, which is classified as an operating lease by the lessee, and the sale price is above 'fair value', the excess of sale price over fair value must be deferred and amortised by the vendor/lessee in proportion to the rental payments over the lease term.

On the basis that it is not possible to reliably estimate the component of the profit from sale and leaseback transactions that is above 'fair value', no part of the profit from the sale is separately identified for deferral in accordance with AASB 117. DHA records the entire sale proceeds as revenue at the time of settlement.

As outlined in Note 1.7 above, DHA sells certain properties and leases them back by way of operating lease. The operating lease agreements obligate DHA to undertake prescribed maintenance ('make good') at the end of the lease period.

At the time of recording a sale, a provision is raised to recognise the 'make good' obligation. This 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 2.75% (2005: 2.4%) and a discount rate of 5.7% (2005: 5.06%), being the long term bond rate as at 30 June.

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 emerging liability.

1.9 INTEREST BEARING LOANS AND BORROWINGS

Borrowings are measured at fair value net of transaction costs. Interest is charged as an expense as it accrues.

1.10 TAX

DHA is exempt from all forms of taxation except Fringe Benefits Tax and the Goods and Services Tax as set out at Note 1.5.

In line with requirements of Government Business Enterprises to operate with competitive neutrality, DHA pays tax equivalents, including income tax, to the Australian Government, in the form of a dividend. Refer also Note 3.

1.11 DIVIDENDS

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date. Dividend liability is determined by DHA annually. Refer also Note 3.

1.12 CASH AND CASH EQUIVALENTS

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.13 SOFTWARE DEVELOPMENT

Costs relating to the development of new products are deferred to future periods to the extent that future benefits are expected. The deferred costs are amortised over future periods to match related benefits. The costs are reviewed each year for impairment and, to the extent that they exceed the recoverable amount, are written off.

1.14 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$1,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Properties vested in DHA as off-base houses where a title does not reside with the Authority have been valued using the Present Value of future rent stream method (net cash flow) over the expected useful economic life of these properties. The assumptions used in determining this present value include a useful economic life of 15 years and a discount rate equal to DHA's weighted average cost of capital of 10.24%.

Properties

Prior to 2004–05, all Land and Building assets owned by DHA, comprising 'off-base' properties in major cities and a few on-base properties, were classified as Property, Plant and Equipment, unless otherwise described.

During 2004–05 DHA adopted AASB 102 – Inventories, for all properties acquired or constructed with the intention of resale at a profit.

Other Land and Building assets owned by DHA are held for strategic provisioning purposes and are recorded in accordance with AASB 140 – Investment Property. These properties are held for the sustainable and flexible provision of housing to meet Defence requirements.

Depreciation

Depreciable assets are written-off to their estimated residual values over their estimated useful lives using, in all cases, the straight-line method of depreciation. Leasehold improvements 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 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.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2005–06	2004–05
Off-base Properties	50 years	50 years
Plant and Equipment	3–10 years	3–10 years

While depreciation expense has been charged to the Income Statement, the accumulated provision for depreciation has been written back on assets subject to revaluation in accordance with Australian Accounting Standard AASB 116.

Capital improvements to DHA owned properties are capitalised and depreciated over the remaining life of the asset.

Impairment

All assets were assessed for impairment on an individual basis as at 30 June. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its 'fair value' less costs to sell and its 'value in use'. Value in use is the present value of the future cash flows expected to be derived from the asset.

1.15 INVENTORIES

Inventories are separated into the following categories:

- a. *Completed properties* – Completed properties held for resale on normal trading cycle.
- b. *Land held for future development*.
- c. *Work in progress* – Incomplete construction projects.

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being assigned costs on an individual basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1.16 REPAIRS AND MAINTENANCE

Repairs and maintenance costs are expensed in the period in which they are incurred.

1.17 JOINT VENTURES

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including DHA's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

Jointly controlled entities

Interests in jointly controlled entities are accounted for under the equity method in the financial statements.

1.18 PROVISIONS

Provisions are recognised when DHA has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

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.

1.19 ROUNDING

Amounts have been rounded to the nearest \$1,000 except in relation to the following:

- remuneration of directors;
- remuneration of officers (other than directors); and
- remuneration of auditors.

1.20 FINANCIAL RISK MANAGEMENT

DHA's activities expose it to normal commercial financial risk. As a result of the nature of DHA's business, and internal and Australian Government policies dealing with the management of financial risk, DHA's exposure to market, credit, liquidity and cash flow and 'fair value' interest rate risk is considered to be low.

2. Impact of transition to AEIFRS from AGAAP

	2005 \$'000	2004 \$'000
Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS		
Total equity under previous AGAAP	1,493,935	1,473,072
Adjustments to retained earnings:		
Receivables ¹	(8,215)	–
Inventories ²	1,392	259,144
Land and buildings ³	(878,447)	(1,220,054)
Investment properties held for sale ³	45,082	22,500
Payables ⁴	4,481	–
Investment properties ³	365,301	421,651
Total equity translated to AEIFRS	1,023,529	956,313
Reconciliation of profit or loss as presented under previous AGAAP to AEIFRS		
Prior year profit as previously reported	66,931	
Adjustments:		
Sales of inventories ¹	(2,342)	
Gain on sale of property, plant and equipment ³	(4,953)	
Housing services provided ⁵	18,072	
Gain on sale of investment properties ³	56,510	
Depreciation ³	3,670	
Prior year profit translated to AEIFRS	137,888	

The statement of cash flows presented under previous AGAAP is equivalent to that prepared under AEIFRS with the exception of the amount shown at footnote ⁵ below, which is disclosed as a cash flow from operating activities. Previously, this amount was disclosed as a cash flow from financing activities.

- 1 Sales of property were previously recognised on exchange of contracts with a receivable raised for the net sale proceeds due. AASB 118 – Revenue, requires revenue to be recognised when all specified conditions relating to the sale are satisfied.
- 2 The costs of the properties sold have been adjusted in accordance with the revenue recognition requirements of AASB 118.
- 3 Properties held were reclassified as being either investment properties, inventory or land and buildings and were reclassified in accordance with AASB 140 – Investment Property, AASB 102 – Inventories and AASB 5 – Non-current Assets Held for Sale and Discontinued Operations respectively.
- 4 A contractual obligation existed to pay a share of the proceeds shown at footnote 1 above to an unrelated third party. This obligation has been reversed in accordance with the recognition of the revenue.
- 5 Receipts from the Department of Defence for reimbursement of land tax and stamp duty tax equivalent dividends are now recognised as revenue. Previously these amounts were set off against the tax equivalent dividends paid to the Australian Government.

3. Annual Dividends

The Board has declared a final dividend for the year ending 30 June 2006 of 57.8 million (2005: \$49.0 million), comprising of the following:

- a. a profit component of \$39.9 million representing 60% of adjusted net profit after tax equivalents (2005: \$27.0 million); and
- b. a tax equivalent component of \$17.9 million representing company tax, payroll tax and stamp duty on new constructions as if DHA had been legally liable to these taxes (2005: \$22.0 million);

and these amounts will be paid to the Australian Government in 2006–07, subject to Ministerial approval.

An interim tax equivalent payment of \$19 million was paid on 30 June 2006 (2005: \$18.1 million), arising from the removal of DHA's exemptions from land tax and stamp duty equivalents from 1 July 2003.

The annual dividend declared for 2004–05 of \$49.0 million was paid to the Australian Government in October 2005.

Below is a summary of dividends paid and payable in respect of the year ending 30 June 2006:

	2006	2005
	\$'000	\$'000
Final dividend (payable in October 2006)		
– profit component	39,900	27,000
– tax equivalent component	17,900	22,000
Interim tax equivalent dividend (paid June 2006)	19,000	18,100
Total dividends in respect of 2005–06	76,800	67,100

4. Special Dividends

The Board has not declared a special dividend for the year ending 30 June 2006.

5. Housing Services Provided

Defence rent and charges	316,640	310,966
Defence housing allocation fees	7,595	8,228
Defence other charges	11,260	10,427
Lessor management fees	25,681	23,635
Other revenue	5,931	7,405
Total housing services provided	367,107	360,661

6. Relocation Services Provided

Relocation administration fees	14,350	14,005
Relocation defence member recoveries	57,847	55,264
Total revenues from relocation services provided	72,197	69,269

7. Interest Received

	2006 \$'000	2005 \$'000
Deposits	<u>12,587</u>	<u>5,169</u>

8. Net Gains from Disposal of Investment Properties

Investments		
Proceeds from disposal	97,399	133,277
Net book value of assets disposed	(52,777)	(76,767)
Net gain from disposal of land and buildings	<u>44,622</u>	<u>56,510</u>

9. Employee Expenses

Remuneration for services provided	43,616	44,102
Separation and redundancies	33	656
Total employee expenses	<u>43,649</u>	<u>44,758</u>

10. Depreciation and Amortisation

Depreciation		
Other infrastructure, plant and equipment	5,238	5,100
Investment properties	5,878	6,204
Total depreciation	<u>11,116</u>	<u>11,304</u>
Total depreciation and amortisation	<u>11,116</u>	<u>11,304</u>

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:

Investment properties	5,878	6,204
Plant and equipment	5,238	5,100

11. Borrowing Costs

Loans	<u>22,332</u>	<u>20,530</u>
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12. Write-Down and Impairment of Assets

Impairment of assets		-
Inventory ¹	16,269	-
Plant and equipment ²	9,665	-
Total impairment of assets	<u>25,934</u>	<u>-</u>

¹ During the year DHA recognised that property markets in some regions in Australia had fallen and that an assessment of carrying values of inventory was required to ensure compliance with AASB 102 – Inventories. An independent assessment of inventory properties was undertaken by a registered valuer in June 2006. Each property was assessed by applying industry specific indices and professional judgement to the last formal property valuation or acquisition date. The carrying value of individual properties – where the cost of the property exceeded the net realisable value – have been written down accordingly.

² The carrying values of plant and equipment were reviewed and adjusted as appropriate to reflect fair value. The carrying amount of the assets were compared to the recoverable amounts or value in use and adjusted where it was considered that these amounts were in excess of the carrying amount.

13. Cash and Cash Equivalents

	2006	2005
	\$'000	\$'000
Cash at bank	829	11,412
Cash on hand	18	18
Short term deposits	208,515	215,356
Total Cash and cash equivalents	209,362	226,786

14. Trade and Other Receivables

Department of Defence	17,500	12,200
House sales	1,393	6,134
Accrued income	11,363	2,306
Other receivables	5,592	6,268
Total trade and other receivables	35,848	26,908

Debtors have repayment terms between 7 and 30 days. Receivables are aged as follows:

Less than 30 days	34,854	26,866
30 to 60 days	898	17
60 to 90 days	44	15
More than 90 days	52	10
	35,848	26,908

15. Other Financial Assets

Prepaid property rentals	23,302	14,213
Other prepayments	21	596
Finance lease receivable (Note 19)	3,140	4,054
Total other current assets	26,463	18,863

16. Inventories

Completed properties – at cost	235,273	416,979
Completed properties – at net realisable value	170,643	–
Work in progress – at cost	232,172	203,304
Total inventories	638,088	620,283
Current	238,897	228,843
Non current	399,191	391,440
	638,088	620,283

17. Investment Properties

	2006	2005
	\$'000	\$'000
Investment properties at cost	488,976	421,994
Less: Accumulated depreciation	53,178	56,693
	435,798	365,301

The fair value of the investment portfolio (including investment properties held for sale and disclosed at Note 20) based on an assessment by independent valuers is \$915.7 million (2005:\$785 million).

Reconciliation of the Opening and Closing Balances of Investment Property	
	Investment property
	\$'000
As at 1 July 2005	
Gross book value	421,994
Less: Accumulated depreciation / amortisation	56,693
Opening Net Book Value	365,301
Additions	
By purchase	21,176
By transfer from inventory	94,452
Depreciation/amortisation expense	(5,878)
Disposals	
Other disposals / Transfer assets held for sale	(39,253)
As at 30 June 2006	
Gross book value	488,976
Less: Accumulated depreciation/amortisation and write-down	53,178
Closing Net book value	435,798

18. Plant and Equipment

	2006	2005
	\$'000	\$'000
Plant, equipment and software development	35,271	34,779
Less: Accumulated depreciation	19,223	13,984
	16,048	20,795

Reconciliation of the Opening and Closing Balances of Plant and Equipment	
	Plant and Equipment
	\$'000
As at 1 July 2005	
Gross book value	34,779
Less: Accumulated depreciation / amortisation	13,984
Opening Net Book Value	20,795
Additions	
By purchase	10,156
Net revaluation increment / (decrement)	
Depreciation/amortisation expense	(5,238)
Recoverable Amount write-downs	(9,665)
Disposals	
Other disposals / Transfer assets held for sale	-
As at 30 June 2006	
Gross book value	44,935
Less: Accumulated depreciation/amortisation and write-down	28,887
Closing Net book value	16,048

19. Finance Lease Receivables

	2006	2005
	\$'000	\$'000
Current finance lease receivables		
Due not later than 1 year	3,140	4,054
Total current finance lease receivables	3,140	4,054
Non-current finance lease receivables		
Due later than 1 year not later than 5 years	15,195	19,216
Due later than 5 years	114,794	183,252
Total non-current finance lease receivables	129,989	202,468
Total finance lease receivables	133,129	206,522
Current		
Total payments receivable	12,899	18,559
Future finance charges	9,759	14,505
Current finance lease receivable	3,140	4,054
Non-current		
Total payments receivable	203,359	346,236
Future finance charges	73,370	143,768
Total finance lease receivables	129,989	202,468

DHA finances on-base housing construction and certain off-base properties for Defence, under annuity arrangements provided for in the Services Agreement. Monthly payments are split – principal amounts are credited against the relevant receivable and the interest component is recorded as Other Income under Housing Services Revenue.

20. Non-current Assets Classified as Held for Sale

	2006	2005
	\$'000	\$'000
Investment properties at cost	37,497	45,082

This amount represents investment properties that are currently listed for sale. No other investment properties have been identified for disposal in the next 12 months.

21. Trade and Other Payables

Trade creditors	12,274	15,671
Accrued expenses	25,219	10,432
Accrued repairs and maintenance	4,513	3,456
Other	–	3,322
Total trade and other payables	42,006	32,881

Trade creditors are normally settled on 30 day terms

22. Borrowings

Loans from Government	340,000	375,000
Maturity schedule for loans payable		
One year or less	70,000	35,000
From one to five years	235,000	275,000
More than five years	35,000	65,000
	340,000	375,000

23. Other Financial Liabilities

Current		
Rental receipts in advance from Dept of Defence	4,590	15,382
Non-current		
Revenue in advance	14,250	14,250
Total	18,840	29,632

24. Provisions

	2006 \$'000	2005 \$'000
Current		
Employees		
Annual leave	3,520	2,498
Long service leave	2,416	3,519
	<u>5,936</u>	<u>6,017</u>
Other		
Other provisions	3,496	905
Total current provisions	<u>9,432</u>	<u>6,922</u>
Non-current		
Employees		
Long service leave	1,614	1,467
Other		
Make good provision	59,778	57,055
Other	1,319	–
	<u>61,097</u>	<u>57,055</u>
Total non-current provisions	<u>62,711</u>	<u>58,522</u>

Reconciliation of provision movement	Other General Provisions \$'000	Make good provision \$'000	Total \$'000
Carrying amount at beginning of period	905	57,055	57,960
Additional provisions made	7,307	7,198	14,505
Amount expensed	(3,397)	(4,475)	(7,872)
Amount owing at end of period	<u>4,815</u>	<u>59,778</u>	<u>64,593</u>

Other general provisions include amounts set aside for:

- Make good on commercial tenancies at the expiration of the lease term;
- Redundancy payments;
- Staff bonus' in accordance with Australian Workplace Agreements in place; and
- Other sundry provisions.

Make good provision – where the term of a lease of property is six years or more, DHA undertakes to “make good” the property at the expiration of the lease term and any extension options. The provision for make good provides for the cost of refurbishing the leased property as set out in the lease agreement.

25. Cash Flow Reconciliation

	2006 \$'000	2005 \$'000
Reconciliation of operating result to net cash from operating activities:		
Operating result	100,575	137,888
Depreciation – Investment properties	5,878	6,204
– Plant and equipment	5,238	5,100
Write down and impairment of assets	25,934	–
Gain on disposal of assets	(44,622)	(56,510)
(Increase) / decrease in net receivables	(8,940)	1,539
(Increase) / decrease in inventories	(97,514)	(207,451)
(Increase) / decrease in prepayments	(8,514)	(3,355)
Increase / (decrease) in provisions	6,699	17,248
Increase / (decrease) in supplier payables	3,087	12,772
Increase / (decrease) in other liabilities	(10,792)	–
Net cash from / (used by) operating activities	<u>(22,971)</u>	<u>(86,565)</u>

26. 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 Administration (COMSUPER) 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.

The Department of Finance and Administration has advised the Commonwealth Superannuation Administration 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 or payable by DHA for the reporting period are:

- CSS members: Contributions at the rate of 26% (2005: 27.2%) of salary for superannuation purposes, amounting to \$0.39 million (2005: \$0.44 million);
- PSS members: Contributions at the rate of 12.1% (2005:12.2%) of salary for superannuation purposes, amounting to \$3.31 million (2005, \$3.85 million); and
- PSSAP members: Contributions at the rate of 15.4% (2005: 0) of salary for superannuation purposes, amounting to \$0.56 million (2005: 0).

27. Key Management Personnel Remuneration

The specified Directors of DHA during the year were:

The Hon Peter V Jones AM	Chairman
Mr Keith Lyon	(retired 31 August 2005)
Mr Michael Del Gigante	A/Managing Director (app 1 September 2005)
Rear Admiral Brian Adams AO	(retired 4 July 2005)
Air Vice-Marshal John Blackburn AM	
Mr William Bowness	Director (appointed 13 April 2006)
Ms Annabelle Chaplain	Director (appointed 24 February 2005)
Rear Admiral Russell Crane CSM	
Major General Mark Evans AM	
Major General Ian Gordon AO	
Mrs Maureen Greet	(appointed 16 December 2004)
Rear Admiral Max Hancock	(retired 22 June 2006)
The Hon W Lloyd Lange	(appointed 13 April 2006)
Air Vice-Marshal Roxley McLennan AM	(retired 15 December 2005)
Dr Ralph Neumann	
Mr Tom O'Brien AM	(retired 16 December 2005)
Mr John O'Grady	(retired 26 November 2005)
Mr Wayne Stokes	(appointed 25 June 2003)

The specified Executives of DHA during the year were:

Michael Del Gigante	Chief Operating Officer (to 31 August 2005)
Richard Bear	Gen Mgr Development & Portfolio Mgt
Gary Kent	Company Secretary
John Kitney	Chief Financial Officer
Jaye Martin	General Counsel
Tracy Muddle	Gen Mgr People & Corporate Resources
Kevin O'Brien	Gen Mgr Operations
Steven Peddle	Gen Mgr Business Solutions & Technology
Tony Winterbottom	Gen Mgr Sales and Marketing

SPECIFIED DIRECTORS REMUNERATION

The number of Directors of the Authority included in these figures are shown below in the relevant remuneration bands:

	2006	2005
\$Nil-\$15,000	10	9
\$15,001-\$30,000	2	4
\$30,001-\$45,000	1	2
\$45,001-\$60,000	2	1
\$75,001-\$90,000	2	1
\$250,001-\$265,000	1	-
\$370,001-\$385,000	-	1
Total number of directors of the Authority	18	18
Total remuneration received or due and receivable by directors of the Authority	\$643,639	\$665,182

Eight directors (2005: nine) did not receive any remuneration from DHA.

SPECIFIED EXECUTIVES REMUNERATION

The number of executives of the Authority included in these figures are shown below in the relevant remuneration bands:

	2006	2005
\$60,001–\$75,000	1	–
\$120,001–\$135,000	1	1
\$150,001–\$165,000	1	–
\$165,001–\$180,000	1	1
\$180,001–\$195,000	1	1
\$195,001–\$210,000	–	2
\$210,001–\$225,000	1	–
\$225,001–\$240,000	1	–
\$240,001–\$255,000	1	1
\$255,001–\$270,000	–	1
\$270,001–\$285,000	1	–
\$300,001–\$315,000	–	1
Total	9	8
The aggregate amount of total remuneration of executives shown above	\$1,688,601	\$1,702,337

The Director and Executive compensation includes wages and salaries, leave accruals, performance and other bonuses, superannuation, motor vehicles, any other allowances and fringe benefits included in remuneration agreements. Executive remuneration includes performance pay relating to the prior year.

28. Remuneration of Auditors

Amount received or due and receivable by auditors.¹

Australian National Audit Office (ANAO) for the Audit of financial statements.²

Deloitte Touche Tohmatsu has been contracted by the ANAO to provide audit services for 2005–06 on the ANAO's behalf. Fees for these services are included above. Ernst & Young were contracted by the ANAO in the 2004–05 year to undertake audit services.

In addition Ernst & Young and Deloitte Touche Tohmatsu have earned the following fees for consulting where they have been separately contracted by the Defence Housing Authority.

KPMG has been contracted by the Australian National Audit Office to provide audit services on the ANAO's behalf. This is for the audit of The Sanctuary Joint Venture 2004–05. DHA is liable for 50% of these fees.

Audit fees relating to the audit of Lyons joint venture paid to ANAO. DHA is liable for 50% of these fees.

No other benefits were received by the auditors.

	\$	\$
	237,100	194,700
	73,852	187,000
	22,000	5,750
	19,250	3,500

¹ The amounts are GST inclusive.

² No other services were provided by the ANAO during the reporting period.

29. Related Parties

DIRECTORS

The names of each person holding the position of Director of DHA during the financial year are:

The Hon Peter V Jones AM	Chairman
Mr Keith Lyon	(retired 31 August 2005)
Mr Michael Del Gigante	A/Managing Director (app 1 September 2005)
Rear Admiral Brian Adams AO	(retired 4 July 2005)
Air Vice-Marshal John Blackburn AM	ADF ex-officio Director
Mr William Bowness	Director (appointed 13 April 2006)
Ms Annabelle Chaplain	Director (appointed 24 February 2005)
Rear Admiral Russell Crane CSM	ADF ex-officio Director
Major General Mark Evans AM	Defence Ex-officio Director
Major General Ian Gordon AO	ADF ex-officio Director
Mrs Maureen Greet	Defence spouse (app. 16 December 2004)
Rear Admiral Max Hancock	(retired 22 June 2006)
The Hon W Lloyd Lange	Director (appointed 13 April 2006)
Air Vice-Marshal Roxley McLennan AM	(retired 15 December 2005)
Dr Ralph Neumann	Defence ex-officio Director
Mr Tom O'Brien AM	(retired 16 December 2005)
Mr John O'Grady	(retired 26 November 2005)
Mr Wayne Stokes	Director (appointed 25 June 2003)

TRANSACTIONS OF DIRECTORS AND DIRECTOR-RELATED ENTITIES

There were no related party transactions other than that listed below:

Mr Tom O'Brien was engaged to provide consulting services subsequent to his retirement as a Director. The services were provided on normal commercial terms and conditions. Total payment for services provided for the period ending 30 June 2006 was \$9,000 (2005 – Nil).

The DHA is part of the Defence portfolio. The Directors listed below held ex officio Director positions in their capacity as employees of the Department of Defence or members of the Australian Defence Force. None of the ex officio directors received remuneration from DHA.

Rear Admiral Brian Adams AO
Air Vice-Marshal John Blackburn
Rear Admiral Russell Crane
Major General Mark Evans
Major General Ian Gordon AM
Rear Admiral Max Hancock
Air Vice Marshal Roxley McLennan
Dr Ralph Neumann

Maureen Greet is an Australian Defence Force spouse representative Director and receives remuneration from DHA.

30. Economic Dependency

DHA depends on the Department of Defence in accordance with the Services Agreement on Housing and Relocation Services Agreement between Defence and DHA.

31. Segment Reporting

DHA operates in a single segment within Australia providing housing and related services.

32. Interest in Joint Venture Developments

THE SANCTUARY – WATTLE GROVE

DHA held a 50% interest in The Sanctuary development (formerly referred to as Wattle Grove Development) near Moorebank in Sydney. The principal activity of the joint venture entity is to develop housing sites for Defence and private sector housing. The development activities of the joint venture ceased in December 2003. DHA's interest in the Joint Venture has been assessed as a jointly controlled asset. Accordingly, DHA's share of assets employed in the joint venture, the share of liabilities incurred in relation to the joint venture and the share of any expenses incurred in relation to the joint venture are disclosed in the respective classification categories.

The disposal of the final parcel of land was completed in December 2005.

The following represents DHA's total interest in the joint venture as at 30 June 2006.

The income statement and balance sheet items have been incorporated in the financial statements under their respective classifications.

	2006	2005
	\$'000	\$'000
Income statement		
Revenues	3,765	2
Expenses	(1,196)	(298)
Total profit	2,569	(296)
Balance sheet		
Current assets		
Cash	–	20
Receivables	–	1,184
Total current assets	–	1,204
Current liabilities		
Payables	10	60
Provisions	77	277
Total current liabilities	87	337
Net assets	(87)	867
Equity	(87)	867

LYONS

In March 2005, DHA entered into a joint venture with a subsidiary of Canberra Investment Corporation Limited (CIC) for the development of land at Lee Point Road in Darwin. DHA's 50% contribution to the joint venture was \$14.25 million. DHA received \$28.5 million from the Joint Venture in exchange for the rights to develop the land at Lee Point Road. The title for the land remains with DHA and is carried in its Balance Sheet at \$8.6 million. CIC's payment of \$14.25 million to DHA for their stake in the development has been accounted for as "Revenue in advance" in DHA's Balance Sheet. As individual lots are developed and sold, this revenue will be recognised in the Income Statement as part of Joint Venture profits.

DHA's interest in the Joint Venture has been assessed as a jointly controlled asset. Accordingly, DHA's share of assets employed in the Joint Venture, the share of liabilities incurred in relation to the joint venture and the share of any expenses incurred in relation to the joint venture are disclosed in the respective classification categories.

	2006 \$'000	2005 \$'000
Income statement		
Revenues	8	-
Expenses	(4)	(11)
Total profit	4	(11)
Balance sheet		
Current assets		
Cash	249	-
Inventory	4,083	32
Receivables	4,213	37
Total current assets	8,545	69
Non current assets		
Inventories	12,107	14,482
Property Plant and Equipment	8	-
Total assets	20,660	14,551
Current liabilities		
Payables	808	22
Provisions	3,829	-
Total current liabilities	4,637	22
Net assets	16,023	14,529
Equity	16,023	14,529

33. Financial Instruments

INTEREST RATE RISK

Financial Instrument	Note	Floating Interest Rate		Fixed Interest Rate Maturing In						Non-Interest Bearing		Total		Weighted Average Effective Interest Rate			
		2006 \$'000	2005 \$'000	1 to 5 Years		> 5 Years		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2006 \$'000	2005 \$'000			
				2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000										
Financial Assets																	
Cash and short term investments		847	11,430	208,515	215,356							209,362	226,786			5.54	4.06
Receivables for goods & services (gross)												35,848	26,908			-	-
Finance lease receivables				3,140	4,054	15,195	19,216	114,794	183,252			-				7.56	7.31
Total		847	11,430	211,655	219,410	15,195	19,216	114,794	183,252	35,848	26,908	378,339	460,216				
Financial Liabilities																	
Government loans				70,000	35,000	235,000	275,000	35,000	65,000	-	-	340,000	375,000			5.99	6.00
Trade creditors										42,006	32,881	42,006	32,881				
Total				70,000	35,000	235,000	275,000	35,000	65,000	42,006	32,881	382,006	407,881				

CREDIT RISK

Represents the extent of credit related losses that DHA may be subjected to on amounts to be received from financial assets. These are considered not material.

LOAN AGREEMENT WITH MINISTER FOR FINANCE AND ADMINISTRATION

On 28 May 2001, DHA entered into a 10 year Loan Agreement with the Minister for Finance and Administration. The Agreement provides DHA with a \$425m loan facility which can be drawn down based on fixed or floating interest rates.

LOANS

DHA drew down \$100m of debt on 1 June 2002 with the following maturity profile:

	Interest Rate
\$35m for 3 years (expiring 31 May 2005)	5.410%
(\$35m has now been rolled over until 1 June 2008)	5.630%
\$35m for 5 years (expiring 31 May 2007)	5.805%
\$30m for 7 years (expiring 31 May 2009)	6.115%

DHA drew down \$100m of debt on 1 June 2003 with the following maturity profile:

	Interest Rate
\$35m for 3 years (expiring 1 June 2006 and repaid)	6.130%
\$35m for 5 years (expiring 1 June 2008)	6.365%
\$30m for 7 years (expiring 1 June 2010)	6.565%

DHA drew down \$100m of debt on 1 June 2004 with the following maturity profile:

	Interest Rate
\$35m for 3 years (expiring 31 May 2007)	5.855%
\$35m for 5 years (expiring 31 May 2009)	5.950%
\$30m for 7 years (expiring 31 May 2011)	6.072%

DHA drew down \$50m of debt on 5 November 2004 with the following maturity profile:

	Interest Rate
\$20m for 3 years (expiring 4 November 2007)	5.710%
\$20m for 5 years (expiring 4 November 2009)	5.805%
\$10m for 7 years (expiring 4 November 2011)	5.935%

DHA drew down \$25m of debt on 18 February 2005 with the following maturity profile:

	Interest Rate
\$25m for 7 years (expiring 31 May 2012)	5.920%

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	2006		2005	
	Total Carrying Amount \$'000	Aggregate Fair Value \$'000	Total Carrying Amount \$'000	Aggregate Fair Value \$'000
Financial Assets				
Cash at bank	829	829	11,412	11,412
Cash on hand	18	18	18	18
Short term investments	208,515	208,515	215,356	215,356
Receivables for goods and services (net)	35,848	35,848	26,908	26,908
Other financial assets	156,452	156,452	221,331	221,331
Total Financial Assets	401,662	401,662	475,025	475,025
Financial Liabilities (Recognised)				
Payables	42,006	42,006	32,881	32,881
Other financial liabilities	18,840	18,840	29,632	29,632
Government loans	340,000	340,000	375,000	375,000
Total Financial Liabilities (Recognised)	400,846	400,846	437,513	437,513

34. Staffing Levels

	2006	2005
Staffing levels for Defence Housing Authority as at 30 June were:	689	687

35. Subsequent Events

There have been no events post 30 June 2006 which would have a material impact on the financial statements or operations of the DHA business.

36. Contingent Liabilities

QUANTIFIABLE CONTINGENCIES

The Schedule of Contingencies in the financial statements reports a number of contingent liabilities which arise as a result of DHA's interest in the Lyons Joint Venture, including guarantees made directly to financing organisations and statutory authorities in respect of the Joint Venture. The amount disclosed represents the aggregate amount of such guarantees. The extent to which an outflow of funds will be required is dependant on the future operation of the Joint Venture being more or less favourable than currently expected.

REMOTE CONTINGENCIES

DHA in April 2006 entered into a contract with a major Australian bank to sell 178 properties for a total price of \$99.6 million and to lease them back for periods ranging from 9 to 12 years, with further extensions available at the option of DHA. In selling the properties, DHA has made certain warranties concerning the quality of properties sold. The Directors of DHA are not aware, as at the date of this report, of any liability the Authority has to the purchaser in respect of warranties given.

STATUTORY REPORTING COMPLIANCE INDEX

The following table shows compliance with Commonwealth Authorities and Companies (Report of Operations) Orders 2005 issued by the Minister for Finance and Administration on 30 June 2005.

Commonwealth Authorities and Companies (CAC) Act 1997

Schedule 1 – Reporting requirements

Section	Reporting requirement	Page reference
s.1(a)	Report of operations	ix–x
s.1(b)	Financial statements	83–117
s.1(c)	Auditor-General’s report	84–85
s.2(3)	Directors’ resolution on financial statements	86

Commonwealth Authorities and Companies (Report of operations) Orders 2005

Division 2 – General information about operations and activities

Section	Reporting requirement	Page reference
Enabling legislation and responsible Minister		
s.8(a)	Enabling legislation	58–59
s.8(b)	Ministerial responsibility	62
Organisational structure		
s.9	Organisational structure	71
s.9	Location of major activities and facilities	14–21
Review of operations and future prospects		
s.10(1)(a)(i)	Performance measured against statutory objectives	vi–viii, 58–61
s.10(1)(a)(ii)	Performance measured against the Corporate Plan	xi–xv, 60–61
s.10(1)(a)(iii)	Performance measured against principal outputs and contributions	xi–xv, 2–82
s.10(1)(b)	Factors, events or trends, including risks and opportunities	ix–81
s.10(c)	Significant events under s.15 of the CAC Act	xvi–xviii
s.10(d)(i)	Principal outputs	xi–xv, 2–82
s.10(d)(ii)	Major investing and financing activities	28–33, 84–117

Division 2 – General information about operations and activities continued

Section	Reporting requirement	Page reference
s.10(d)(iii)	Key financial and non-financial performance indicators	xi–xv
s.10(e)	Significant changes in state of affairs or principal activities	ix–x
s.10(f)(i)(ii)(iii)	Significant developments since the end of the financial year	none to report
Judicial decisions and reviews by outside bodies		
s.11(a)	Judicial decisions and administrative tribunal decisions	77
s.11(b)	Reports on operations by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman.	76–77
s.11(b)	Independent Audit Report	84–85
Effects of Ministerial directions		
s.12(a)(i)(ii)(iii)	Directions issued by the Minister, during or since the end of the financial year, or continuing from previous financial years	62
s.12(b)(i)(ii)(iii)	Government policies under section 28 of the CAC Act	58–59
Disclosure requirements for GBE's		
s.13(a)(i)	Significant changes in overall financial structure and condition	28–33, 94–101
s.13(a)(ii)	Material events causing financial information not to be indicative of future results	none to report
s.13(b)	Dividends paid or recommended	30–31, 33, 102
s.13(i)(ii)	Community service obligations	50–52, 78

Division 3 – Specific Information

Section	Reporting requirement	Page reference
Directors		
s.14(1)(a)	Directors' details	63–69
s.14(1)(b)	Board meeting attendance	64, 69–70
Statement on governance		
s.15(1)	Governance practices	58–78
s.15(2)	Board committee details	69–70
s.15(3)(b)	Reviewing board performance	69, 76
s.15(3)(d)	Risk management	76
s.15(3)(e)	Ethical standards	76
Indemnities and Insurance Premium officers		
s.16(1)(a)(b)	Indemnity for officers or premiums paid	77

Division 4 – Miscellaneous

Section	Reporting requirement	Page reference
Other statutory requirements		
s.18	Commonwealth Disability Strategy	78
s.74 (<i>Occupational Health and Safety (Commonwealth Employment) Act 1991</i>)	Occupational Health and Safety	45-46
<i>Subsection 8(1), Freedom of Information Act 1982</i>	Freedom of Information	77
s.516A <i>Environment Protection and Biodiversity Conservation Act 1999</i>	Environmental sustainability	53-55

Whilst as a statutory authority it is not required to do so, DHA has also compiled this report with regard to the *Requirements for Departmental Annual Reports* approved by the Joint Committee of Public Accounts and Audit under subsections 63(2) and 70(2) of the *Public Service Act 1999*.

ACRONYMS AND ABBREVIATIONS



ACS	Australian Customs Service	GBE	Government Business Enterprise
ADF	Australian Defence Force	HMC	Housing Management Centre
AEIFRS	Australian Equivalents to International Financial Reporting Standards	HMI	Housing Management Instructions
AFR	Application For Relocation	ICT	Information and Communication Technology
ANAO	Australian National Audit Office	IT	Information Technology
APS	Australian Public Service	ITS	Information Technology Services
AWA	Australian Workplace Agreement	KPI	Key Performance Indicator
BAC	Board Audit Committee	LIA	Living In Accommodation
BS&T	Business Solutions and Technology	MWD	Member With Dependants
CA	Certified Agreement	MWOD	Member Without Dependants
CIC	Canberra Investment Corporation Ltd	OBS	Off Balance Sheet
CMS	Content Management System	OH&S	Occupational Health and Safety
CSIA	Customer Service Institute of Australia	PID	Personal Information Digest
CSIG	Corporate Services Infrastructure Group	PMS	Property Management System
DCO	Defence Community Organisation	PP&E	Property Plant and Equipment
DE	Directorate of Entitlements	PWC	Public Works Committee
DFA	Defence Families of Australia	RA	Rent Allowance
DHA	Defence Housing Authority	RAAF	Royal Australian Air Force
DPE	Defence Personnel Executive	ROA	Return On Assets
DSNSG	Defence Special Needs Support Group	ROE	Return On Equity
EBIT	Earnings Before Interest and Tax	SCG	Staff Consultative Group
FCP	Fraud Control Plan	SES	Senior Executive Service
FMA	Fleet Management Agreement	SDM	Service Delivery Model
FOI	Freedom of Information	SLB	Sale and Leaseback
FRA	Fraud Risk Assessment	SOP	Standard Operating Procedure
FMOs	Finance Minister's Orders	SVA	Shareholder Value Added
		TER	Tax Equivalent Regime
		TMS	Tenant Management System
		TPMS	Tenant Property Management System

DHA DIRECTORY



Head office

Defence Housing Authority
26 Brisbane Avenue
BARTON ACT 2600
Switchboard: 02 6217 8444
Fax: 02 6217 8500
Website: www.dha.gov.au

Operations support

26 Mort Street
BRADDON ACT 2612
Telephone: 02 6268 3800
Fax: 02 6268 3868
Customer service line: 1800 249 711

National sales office

80 George Street
PARRAMATTA NSW 2150
Telephone: 02 9762 5600
Fax: 02 9762 5688
Toll free line: 1800 813 621

ACT and Riverina

CANBERRA HOUSING MANAGEMENT CENTRE

26 Mort Street
BRADDON ACT 2612
Telephone: 02 6268 3700
Fax: 02 6268 3760

WAGGA WAGGA HOUSING MANAGEMENT CENTRE

11–15 Fitzmaurice Street
WAGGA WAGGA NSW 2650
Telephone: 02 6933 7200
Fax: 02 6933 7260

WODONGA HOUSING MANAGEMENT CENTRE

83 Hume Street
WODONGA VIC 3690
Telephone: 02 6049 2300
Fax: 02 6049 2360

NSW Region

PARRAMATTA HOUSING MANAGEMENT CENTRE

Level 5, 79 George Street
PARRAMATTA NSW 2150
Telephone: 02 8836 5700
Fax: 02 8836 5790

HURSTVILLE OFFICE

Suite 107
Level 1
9 Gloucester Road
HURSTVILLE NSW 2220
Telephone: 02 8567 1200
Fax: 02 8567 1209

LIVERPOOL OFFICE

46 Rose Street
LIVERPOOL NSW 2170
Telephone: 02 8778 6900
Fax: 02 8778 6960

PENNANT HILLS OFFICE

Suites 9–12
380 Pennant Hills Road
PENNANT HILLS NSW 2124
Telephone: 02 9875 8600
Fax: 02 9875 8660

RICHMOND OFFICE

14 McNamara Avenue, RAAF Base
RICHMOND NSW 2755
Telephone: 02 4588 1000
Fax: 02 4588 1060

HUNTER VALLEY HOUSING MANAGEMENT CENTRE

Corner Kangaroo and Adelaide Streets
RAYMOND TERRACE NSW 2324
Telephone: 02 4983 5300
Fax: 02 4983 5361

NOWRA HOUSING MANAGEMENT CENTRE

Suite 3
Level 2 Bridgeton House
55–57 Berry Street
NOWRA NSW 2541
Telephone: 02 4421 1500
Fax: 02 4421 1560

South East Australia Region

ADELAIDE HOUSING MANAGEMENT CENTRE

125 Port Road
HINDMARSH SA 5007
Telephone: 08 8245 7800
Fax: 08 8245 7860
Sales Free call: 1800 353 525

MELBOURNE HOUSING MANAGEMENT CENTRE

Level 2, 391 St Kilda Road
MELBOURNE VIC 3004
Telephone: 03 9947 8100
Fax: 03 9947 8162

CERBERUS OFFICE

Shop Front Cerberus, HMAS Cerberus
Western Port
CERBERUS VIC 3920
Telephone: 03 5950 6604
Fax: 03 5950 6660

PUCKAPUNYAL OFFICE

Vivi Street
PUCKAPUNYAL VIC 3662
Telephone: 03 5736 1100
Fax: 03 5736 1160

SALE OFFICE

99a Raymond Street
SALE VIC 3850
Telephone: 03 5143 6500
Fax: 03 5143 6560

TASMANIA OFFICE

7 Barrack Street
HOBART TAS 7000
Telephone: 03 6215 7600
Fax: 03 6215 7660

Western Australia Region

PERTH HOUSING MANAGEMENT CENTRE

Level 2, 43 Kishorn Road
APPLECROSS WA 6153
Telephone: 08 9210 3400
Fax: 08 9210 3460

BULLSBROOK OFFICE

c/- RAAF Base Pearce
BULLSBROOK WA 6084
Telephone: 08 9571 6201
Fax: 08 9571 3285

ROCKINGHAM OFFICE

23 Chalgrove Avenue
ROCKINGHAM WA 6168
Telephone: 08 9591 4400
Fax: 08 9591 4460

Northern Territory Region

DARWIN HOUSING MANAGEMENT CENTRE

1 Carey Street
DARWIN NT 0800
Telephone: 08 8901 7100
Fax: 08 8901 7162

ALICE SPRINGS OFFICE

15 George Crescent
ALICE SPRINGS NT 0871
Telephone: 08 8952 9323
Fax: 08 8952 4562

ROBERTSON BARRACKS OFFICE

Building 102, Robertson Barracks
PALMERSTON NT 0830
Telephone: 08 8927 5938
Fax: 08 8927 9045

TINDAL HOUSING MANAGEMENT CENTRE

Unit 2/42 Katherine Terrace
KATHERINE NT 0850
Telephone: 08 8972 8000
Fax: 08 8972 8060

North Queensland Region

CAIRNS HOUSING MANAGEMENT CENTRE

Grove House, 10 Grove Street
CAIRNS QLD 4870
Telephone: 07 4040 2400
Fax: 07 4040 2460

TOWNSVILLE HOUSING MANAGEMENT CENTRE

63–65 Bamford Lane
KIRWAN QLD 4817
Telephone: 07 4726 1800
Fax: 07 4726 1860

South Queensland Region

BRISBANE HOUSING MANAGEMENT CENTRE

Building S7, Gallipoli Barracks
ENOGGERA QLD 4051
Telephone: 07 3355 8800
Fax: 07 3355 8860

CANUNGRA OFFICE

Kokoda Barracks
CANUNGRA QLD 4275
Telephone: 07 5543 4554
Fax: 07 5543 4417

IPSWICH HOUSING MANAGEMENT CENTRE

Shop 12, Yamanto Shopping Centre
Corner Warwick and Powells Road
YAMANTO QLD 4305
Telephone: 07 3355 8800
Fax: 07 3294 2660

TOOWOOMBA HOUSING MANAGEMENT CENTRE

162 Hume Street
TOOWOOMBA QLD 4350
Telephone: 07 3355 8800
Fax: 07 4699 1360

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Head Office

Defence Housing Authority
26 Brisbane Avenue
Barton ACT 2600

Switchboard: (02) 6217 8444
Facsimile: (02) 6217 8500
Website: www.dha.gov.au

Chairman: The Hon Peter V Jones AM
Managing Director: Mr Michael Del Gigante
Chief Financial Officer: Mr John Kitney
Internal Audit Manager: Mr Brendan Clarke

Editorial

Published by the Defence Housing Authority
ABN 72 968 504 934
Project Manager: Kierra-Jade Sanders

Design: ZOO Design
Printing: Goanna Print
Photography: Seventy8 photography

To obtain further information about the contents of this report, please contact:
Communication and Media Manager
Defence Housing Authority
26 Brisbane Avenue
BARTON ACT 2600
Ph: 02 6217 8444
Email: communications@dha.gov.au

This report can also be found on the DHA's website at www.dha.gov.au

ISSN: 1032-6197



Report produced using
Monza Satin recycled paper.

