





15 October 2010

Senator the Hon. Stephen Smith
Minister for Defence
Parliament House
CANBERRA ACT 2600

The Hon. Penny Wong
Minister for Finance and Deregulation
Parliament House
CANBERRA ACT 2600

Dear Ministers

On behalf of the Board of Defence Housing Australia (DHA), and in accordance with section 9 of the *Commonwealth Authorities and Companies Act 1997 (CAC Act)*, I submit the Defence Housing Australia 2009–10 Annual Report.

DHA continues to deliver housing and related services to the men and women of the Australian Defence Force (ADF) and their families in accordance with the *Defence Housing Australia Act 1997*, and our obligations under supply agreements with the Department of Defence. This report covers those activities for the 2009–10 financial year.

This was the last year in which DHA provided relocations administration services to Defence. The supply agreement expired on 30 June 2010 and a tender was awarded to Toll Transitions.

During the year under review DHA has met or exceeded all its key strategic and financial targets, has received high levels of satisfaction with its services among ADF members and their families, and generated strong financial returns to Government.

At the end of the Financial Year DHA was ahead of schedule in constructing houses under the Nation Building—Economic Stimulus Plan. By 30 June 2010 78% of the 829 houses funded under the Plan had been completed. It is likely that all houses will be completed by 31 March 2011, ahead of the planned date of 30 June 2011.

In 2009–10 DHA completed 965 houses, the exact target figure. This is the third highest number of houses ever constructed by DHA in a year. In 2010–11, DHA will build 919 houses, the fifth highest number on record.

Yours sincerely



Derek Volker
Chairman
Defence Housing Australia

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DHA blueprint

Who we are and what we do

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Who we are and what we do

Our vision

Excellence 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.

The mission requires DHA to provide cost-effective housing, that facilitates the movement of ADF personnel when posted, at a standard that supports Defence in recruiting and retaining its highly-trained personnel. In this regard, the mobility of members and their families contributes to the operational capability of the ADF.

DHA must be able to adapt its housing portfolio as Defence housing requirements change. DHA is active in the very dynamic residential housing market where it develops land, constructs and acquires houses, and finances its operations via its Sale and Leaseback program. It needs to be flexible and from time-to-time may need to invest in housing where commercial returns may not be achievable.

Corporate objectives

To achieve the mission and to fulfil the outcomes desired by Shareholder Ministers, DHA set five strategic objectives:

1. Housing supplied and managed effectively against the Defence Housing Forecast.
2. Healthy long-term financial structure.
3. Enhancing customer service experience and perceptions.
4. Motivated and engaged staff.
5. Information technology solutions supporting business capabilities.

This Annual Report describes DHA's performance against these objectives.

Our values

Respect

Excellence

Integrity

Enthusiasm

Innovation

These values are applied in DHA's recruitment processes and DHA encourages its staff to apply them consistently in all aspects of their behaviour in order to contribute to workplace harmony and to improve the way in which DHA conducts its business. DHA complies with the *Public Service Act 1999* and upholds and promotes the Australian Public Service Values and Code of Conduct.

DHA is committed to providing a safe workplace, free from discrimination and harassment, and to recognising the individual contributions of staff members. DHA is also committed to high standards in its dealings with maintenance and other contractors and with private investors on behalf of whom it manages property.

Our capabilities

The primary function of DHA is to supply housing and related services to ADF members and their families in accordance with the *DHA Act*, and in line with Defence requirements and supply agreements with the Department of Defence. In fulfilling this role, DHA makes a significant contribution to Defence recruitment and retention goals.

DHA recognises that ADF members, particularly those deployed, should not be distracted by housing issues at home. Because finding a home in a new posting location can be a stressful event, DHA has developed the internet-based HomeFind tool. Through HomeFind, DHA makes available as many properties as possible and enables Defence families to pre-select homes in their new posting locations.

DHA's contribution to capability and Defence personnel goals is based on providing housing, housing allocation and property and tenancy management as a single package. Reflecting the nature of this contribution, on 1 July 2009, these services were amalgamated in a single supply agreement with the Department of Defence.

To meet its Defence housing obligations, DHA manages a substantial property development, construction and acquisition program. In 2009–10, 1,130 properties were built or acquired.

DHA's capital program is based on the Defence housing requirement, expiring leases and the need to replace DHA properties that do not meet new Defence housing standards.

At 30 June 2010, DHA managed 18,058 properties in all States and Territories including dwellings held for the Australian Customs and Border Protection Service, the Australian Maritime Safety Authority and properties scheduled for disposal. This portfolio is valued at \$8.6 billion. Of these dwellings, 65% are owned by investors and leased back to DHA primarily through its Sale and Leaseback program. A small number are direct-leased from investors.

DHA stakeholders

DHA sits in the Defence portfolio. The Minister for Defence and the Minister for Finance and Deregulation are Joint Shareholder Ministers of DHA.

During the year the DHA Board reported to Senator the Hon. John Faulkner (previously, the Hon. Joel Fitzgibbon MP), Minister for Defence, and the Hon. Lindsay Tanner MP, Minister for Finance and Deregulation, as Joint Shareholder Ministers of DHA. Responsibility for operational matters affecting DHA has been delegated to the Minister for Defence Personnel, the Hon. Alan Griffin MP (previously the Hon. Greg Combet AM MP).



Chairman and Managing Director's report

DHA has had a very successful year. Among many highlights, we met targets for house constructions under the Nation Building – Economic Stimulus Plan and our Business as Usual program. We have been a safe haven for small investors with our Sale and Leaseback program exceeding the revenue target by a substantial margin. We achieved high levels of customer satisfaction in our relocations business. We started work on a multi-year program to upgrade and replace Defence-owned housing on and off-base and, in partnership with Defence, we have stepped up to the challenge of securing land supply. We have enough land for the 2010-11 construction program and we are working on significant opportunities involving Defence land beyond that timeframe.

DHA's main role is the supply of housing and related services to ADF members and their families in support of Defence operational, recruitment and retention goals. After more than 20 years of investment in the renewal and replacement of Defence stock, in partnership with the Department of Defence, housing is no longer a principal cause of ADF members leaving the Services, a state of affairs that DHA was established to remedy.

During 2009–10, DHA provided and maintained 18,058 dwellings of which 17,415 were for Defence members with dependants. A further 167 dwellings were completed and handed over to DHA but had not been activated for Defence housing purposes by 30 June 2010. In addition, DHA managed payment of Rent Allowance to an average of 3,006 members with dependants and administered the relocation of more than 36,000 ADF members including many with families. Following the expiry of the Relocations Services Agreement on 30 June 2010, DHA no longer performs the relocations administration function. We have managed a successful redeployment program for affected staff.

During 2009–10 DHA continued an ambitious program of house construction in support of the Enhanced Land Force, a Federal Government initiative to expand the size of the Army and to re-base major elements in Adelaide, Brisbane, Ipswich and Townsville. The program is on track to deliver in time for the first of these, the relocation of the Seventh Battalion, Royal Australian Regiment, from Darwin to Adelaide commencing in early 2011.

DHA was given the task of constructing 802 houses under the Government's Nation Building – Economic Stimulus Plan in addition to its Business as Usual program. We made a good start in 2008–09 and sustained this momentum through 2009–10. Although initial funding was reduced slightly, program efficiencies meant that we were able to increase the total number of houses to 829. By 30 June 2010, 644 houses had been completed. All 829 will be completed by 31 March 2011 well ahead of the target date of 30 June 2011.

In terms of land supply, during 2009–10 new opportunities have emerged involving surplus Defence land and DHA is working closely with Defence to determine whether sale to DHA under the Commonwealth Property Disposal Policy is feasible. Two of these opportunities are in the high-priority locations of Perth and Sydney, where numbers of Defence personnel on Rent Allowance are higher than desirable.

DHA is pleased to have reached agreement with Defence during 2009–10 on a major program for the upgrade and replacement of Defence-owned housing, on and off-base. Costing \$250 million over 10 years, the program will bring all Defence-owned housing up to the new minimum standard by 2017. The first significant activity is replacement of ageing houses by the construction of 97 modern dwellings on Larrakeyah Barracks in Darwin.

In terms of its financial performance, DHA achieved a Net Operating Surplus after Income Tax of \$87.8 million and a Return on Equity of 7.3% against a Corporate Plan target of 5.9%. This was achieved through continued focus on efficiency at a time of increased production of houses due to the injection of stimulus funding and a favourable domestic housing market.

The Board is proposing a dividend of \$52.7 million against a Corporate Plan target of \$42.2 million bringing total payments to Government for 2009–10 to \$107.2 million including income tax, state tax equivalent payments, land tax and dividends.

DHA is substantially dependent on capital raised through its successful individual Sale and Leaseback program and through disposal of properties that no longer meet Defence requirements. Sale and Leaseback performance, in particular, has been strong with \$328 million from this source in 2009–10 compared to \$278 million in 2008–09. In response to increasing competition for investment funds in the wake of the recovery from the global financial crisis, DHA approached the institutional investment market in 2009–10 with a view to portfolio sales of DHA properties to augment the individual Sale and Leaseback program. After an expressions-of-interest process DHA is negotiating with a short list of interested parties.

As a result of changes to the Federal Ministry announced in early 2010, the Hon. Alan Griffin MP became Minister for Defence Personnel replacing the Hon. Greg Combet AM MP as Minister with direct responsibility for DHA. There were also changes to the composition of the DHA Board. The term of Mr Bill Bowness expired in August 2009. He had served with distinction as a member of the Nomination and Remuneration and the Property Committees. Ms Carol Holley was appointed to the Board in November 2009.

Under Section 9 of the *Commonwealth Authorities and Companies Act 1997*, the Directors are responsible for the preparation and content of this report, in accordance with the Finance and Deregulation Minister's Orders. This report is made in accordance with a resolution of the Directors.

The Directors of DHA are pleased to present this Annual Report for the financial year ended 30 June 2010.



Derek Volker
Chairman



Michael Del Gigante
Managing Director

Highlights and events

1 July 2009



Senator the Hon. Jan McLucas, Chair of the Parliamentary Standing Committee on Public Works, inspected Nation Building – Economic Stimulus Plan houses under construction in Townsville. The houses were part of a \$31.8 million project to build 118 new homes in the Townsville suburbs of Bohle Plains, Douglas, Kirwan, North Shore and Mount Louisa. The locations were selected because they are close to major Defence bases and establishments.

5 August 2009



DHA announced plans to build 32 new townhouses in the Brisbane suburb of Everton Park. Funded under the Nation Building – Economic Stimulus Plan, the 12,520 square metre site will feature double-storey, three-bedroom houses with single or double garages. Representatives from St Hilliers visited Canberra to sign the contracts and meet DHA Managing Director, Michael Del Gigante and Chief Operating Officer, Peter Howman. Construction is expected to be completed by September 2010.

28 August 2009



The Hon. Greg Combet, then Minister for Defence Personnel, Materiel and Science, visited a Defence housing construction site in Townsville to view homes being constructed under the Nation Building – Economic Stimulus Plan.

1 October 2009



Mr Shayne Neumann MP, Member for Blair, visited a construction site in Ipswich where 54 houses were being built as part of the Nation Building – Economic Stimulus Plan. Mr Neumann inspected construction and hosted a barbecue for builders. The new homes are just some of the 133 Defence houses being built in Ipswich over the next two years. The constructions are injecting over \$36 million into the local economy.

29 October 2009



DHA signed the first of many contracts to deliver six-star energy efficient homes for Defence families. DHA was invited to become an early adopter of six-star energy efficiency ahead of a Federal Government initiative to mandate the higher standard by May 2011.

2 November 2009



Ms Yvette D'Ath, Member for Petrie, turned the first sod on a construction site in Brisbane where 32 townhouses were being built by St Hilliers Construction as part of the Nation Building – Economic Stimulus Plan. The townhouses at Everton Park will give more Defence families the option of DHA housing instead of Brisbane's private rental market.

5 November 2009



DHA held a public information session to showcase plans to redevelop on-base housing at Larrakeyah Barracks. Under this exciting project, 97 new homes will be built for Defence families. The new, modern homes will meet Defence standards and will be of tropical design to suit Darwin's conditions. During the information evening, nearby residents were invited to view the proposals and speak with DHA's staff.

1 February 2010



The DHA Board Property Committee viewed a potential new housing site in Ermington, NSW. The Board received a presentation from architects, planning and land consultants as well as financial consultants who highlighted the best way to use the potential land at Ermington.

1 March 2010

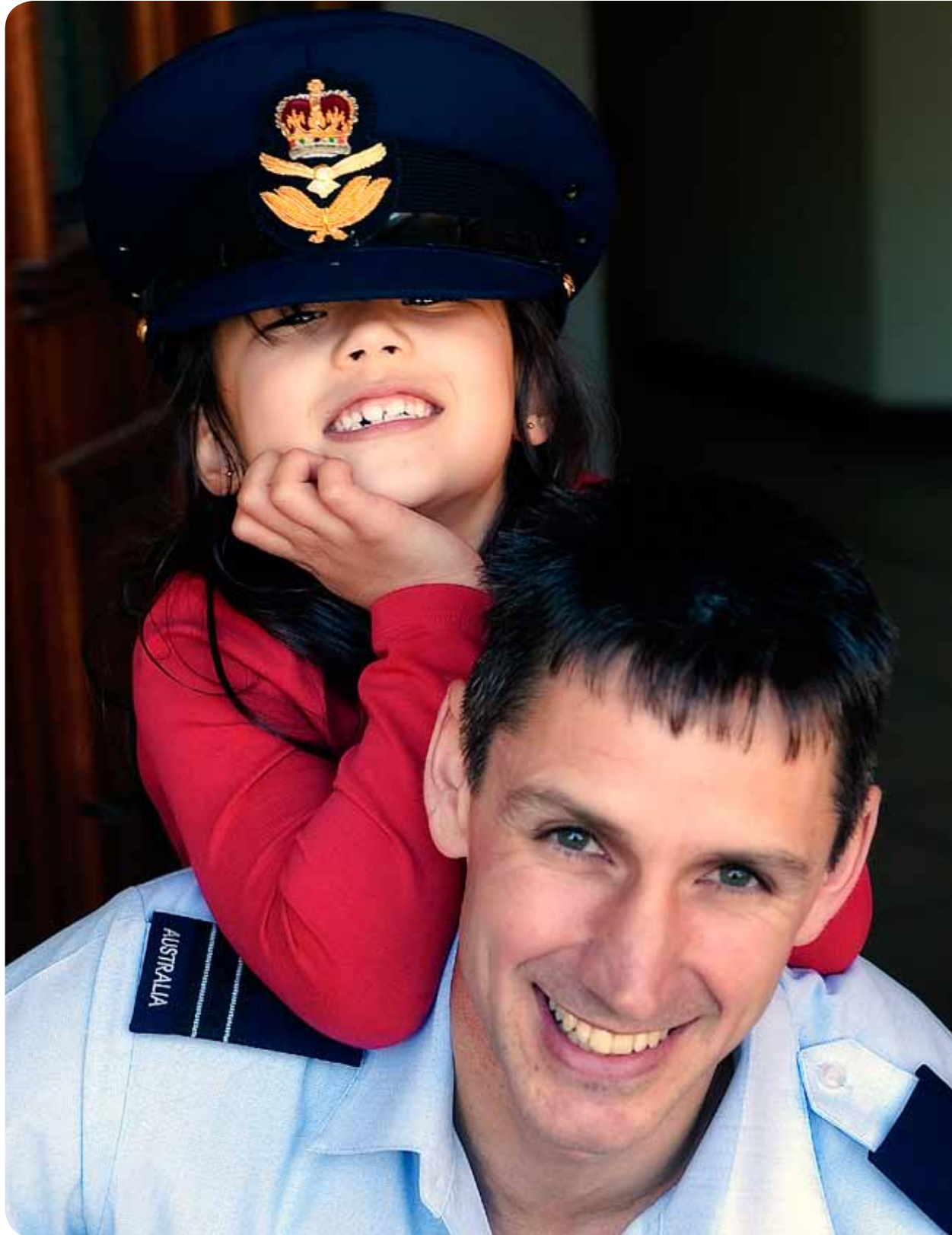


Ms Annette Ellis MP, Federal Member for Canberra, officially opened ten DHA homes in the Canberra suburb of Conder. The homes provide breathtaking views of the Brindabella Mountains and easy access to Defence workplaces in Canberra and the surrounding region and were funded under the Nation Building – Economic Stimulus Plan.

7 April 2010



A public information session was held for DHA's proposed development in Voyager Point, NSW. The following day the Public Works Committee (PWC) visited the site and received a presentation on the proposed development as a part of their consideration of the project. The committee gave the go-ahead for the proposal in June 2010.



Sponsorship programs

In 2009–10, DHA contributed more than \$95,000 to the support of Defence and community programs.

Major sponsorships included:

A **\$40,000** sponsorship of Defence Families Australia.

A **\$25,000** contribution to Legacy to support an advertising campaign promoting its work with Defence families.

A **\$5,000** contribution to the Australian Peacekeeping Memorial Project (APMP).

A **\$5,000** sponsorship of the Navy Cadets recruitment campaign.



Housing Defence people

Objectives

Major outcomes

Housing supply

Property and tenancy management

Major projects

Objectives

Housing supplied and managed effectively against the Defence Housing Forecast.

Enhancing customer service experience and perceptions.

KEY PERFORMANCE INDICATOR	2009–10 TARGET	2009–10 ACHIEVEMENT
% ADF member satisfaction with house	80%	88%
% ADF member satisfaction with maintenance	95%	98%
Maximising pre-allocations (rolling 12 mth average)	>75%	90%
Stock supplied for client against agreed provisioning plan	>95%	99.9%
Revenue to operating cost ratio	11.9	13.4
Inventory turnover (holding period)	1.70 years	1.50 years

Major outcomes

1. A portfolio of 17,415 houses provided to members with dependants in accordance with targets in an agreed provisioning schedule.
2. Commenced a five-year agreement for the bundled supply of allocations and tenancy management services with DHA's core housing services.
3. Substantially met targets in a program of acquisitions and constructions in Adelaide, Brisbane, Ipswich and Townsville in support of the Enhanced Land Force.
4. Sustained a program of new constructions under the Nation Building – Economic Stimulus Plan with 644 houses completed by 30 June 2010. The full target is 829 houses to be completed by 30 June 2011.
5. Commenced a program of Defence-funded air conditioning upgrades to more than 3,000 service residences.
6. Began a three-year program of upgrades to on-base residences at Puckapunyal, Victoria.
7. Achieved a pre-allocation rate of 90%, reducing posting stress for families and saving Defence costs for temporary accommodation and storage.
8. Delivered a vacancy rate of less than 7% for DHA-owned and leased housing, reflecting continuous improvement in business practices in allocations and tenancy management.
9. Held vacancy rates for nearly 700 Defence-owned off-base dwellings at 6% – just above the target of 5%.
10. Did better than financial targets and finished the year in a strong financial position with resources to cope with strong demand for Defence housing.

Housing supply

Overview

DHA's main role is to provide housing for ADF members and their families in response to Defence needs. To do this, DHA manages a portfolio of dwellings spread across the country in capital cities, major regional centres and in many remote localities. Houses are acquired by DHA through a substantial construction program and by purchase and/or lease of existing privately owned housing. Dwellings are allocated by DHA in accordance with Defence policy and DHA manages the resulting tenancies with ADF members. Some houses are owned by Defence (e.g. on Defence bases and establishments). Others are owned by DHA. The greatest number of dwellings in the DHA portfolio are privately owned and leased to DHA, typically for periods of nine–12 years.

Forecast and response

A process of forecast and response is used to reach an agreed provisioning schedule which forms the basis of DHA's annual corporate plan. Defence estimates its housing requirement in the Defence Housing Forecast (DHF), the purpose of which is to inform DHA of how many ADF members with dependants are expected to need accommodation in the next financial year (and the following four years) in terms of numbers, locations and housing classifications. DHA responds with a draft provisioning schedule that takes account of supply-side factors such as expected vacancy rates, land-supply, availability of capital, and the state of private rental markets. DHA aims to supply 85% of the Defence requirement as a national average with the balance satisfied by private rental markets where members receive their housing entitlement as Rent Allowance (RA). Following negotiation, DHA is contracted to supply an agreed level of housing.

Capital Program

The Capital Program sets out how DHA will adjust its housing portfolio to meet Defence requirements as agreed in the Provisioning Schedule. It takes account of expiring leases, lease extensions and renewals, direct leasing outcomes, the purchase of new dwellings and DHA's construction program.¹ Subject to supply-side constraints, it seeks to maintain stock numbers and increase DHA stock in response to changes in ADF force disposition (e.g. relocation of 7RAR to Adelaide). The result is a large development, construction, acquisition and disposal program that must be approved by the DHA Board in the annual corporate plan.

Defence requirement 2009–10

For 2009–10, Defence forecast a requirement for housing assistance for 18,464 ADF members and their families, an increase of more than 6% over the previous year. Defence revised the figure to 18,256 at the start of 2009–10. In response, DHA committed to a portfolio of 17,438 properties including 2,586 additions (a combination of constructions, acquisitions and leases) and estimated that 2,762 members would use private rental accommodation (RA). By 30 June 2010, the total number of properties in the DHA portfolio was 17,415, with a further 167 properties handed over but not activated for Defence housing purposes.

Quality and diversity

Over the past 20 years DHA has significantly increased the quality and diversity of housing (service residences) available to ADF members and their families. Its success is reflected in the 2009 ADF Exit Survey which reported that the availability of DHA housing was extremely low in a list of contributing reasons cited by members for leaving the ADF. In a survey conducted by Defence Families Australia, housing was rated as the most important single issue impacting on Defence families.

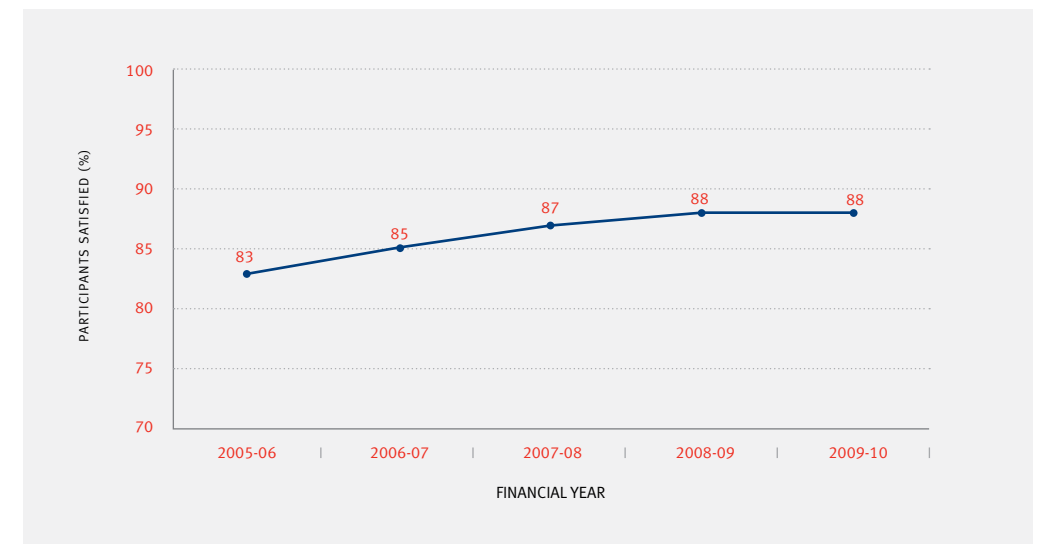
¹ In the three-year period 2009–10 to 2011–12, some 6,200 off-base leases and lease options are due to expire. While DHA will seek to extend expiring leases where it is sensible to do so, a large number will need to be replaced, adding to the pressure on DHA's capital program.

While most of the portfolio is traditional detached family homes, it also includes townhouses, courtyard style houses and apartments to meet the differing needs of ADF families. Townhouses and courtyard style developments with minimal garden maintenance are particularly suited to members who prefer well-located inner suburbs. In addition, within limits set by Defence, a small number of apartments with shared recreational amenities and undercover parking are available in inner-city locations.

Satisfied tenants

DHA's annual tenant survey measures ADF members' satisfaction with their current service residences. In 2009–10, 88% of 3,273 respondents were satisfied with their current accommodation, an increase compared with 2008–09. In past years, sample sizes have ranged from 1,635 to 4,431.

Figure 1: Customer satisfaction with current DHA accommodation, 2005–06 to 2009–10



Air conditioning and security upgrades

Since 1 July 2006, all new houses entering the DHA portfolio have been required to meet a higher standard of inclusions than applied before this date (notably air conditioning and selected security upgrades). However, the change introduced a split in the portfolio in that pre-July 2006 dwellings in the same location as newer dwellings have a lower standard of amenity. In 2009–10, Defence decided to fund a major program of upgrades to these older houses to bring them up to a similar standard. Funding has been ear-marked by Defence, and DHA and Defence are working together on a multi-year project to complete the work.

Active portfolio management

The DHA portfolio is actively managed from establishment of the housing requirement with Defence, through to exit from the portfolio when leases expire or properties are no longer required for ADF families. DHA maintains ownership of some properties to meet prudential requirements and uses a number of financial benchmarks to determine the make up of this important part of the total portfolio. DHA also carefully selects properties for its Sale and Leaseback program, the sale proceeds being the most important source of capital for financing its business. DHA works closely with investors to manage their properties through the leasing cycle, from purchase, lease extensions/renewal and finally to return of properties at lease end.

Classifying for allocation

Service residences are classified for allocation purposes, allowing ADF members to access housing in accordance with their rank and family-based entitlement. Since 1 July 2007, the system of housing classification has been based on market rents (for off-base housing). Known as the New Housing Classification Policy, properties are assigned to one of five rent bands which are set by Defence in consultation with DHA and updated annually. The system enables location to be factored into classification (previously houses were classified by amenity alone). It has helped DHA to provide greater choice to ADF members irrespective of rank.

DHA and singles

While DHA's core business is housing for members with families, since 2006 it has provided about 100 apartments for single members posted to Darwin. These are an alternative to RA and are known as Members without Dependants Choice Accommodation (MCA). The initial MCA trial proved a success and on 24 December 2008 DHA entered a long-term agreement to supply singles accommodation to Defence. Initially, the operation of the arrangement is limited to Darwin but it provides an option to extend the supply of singles accommodation to other locations provided both parties and Government agree.

Value to Defence

DHA is committed to providing value to Defence by contributing to ADF member recruitment and retention, by sustaining high levels of availability of DHA housing compared to RA and by limiting rent bill growth to market growth for comparable housing. In this regard, quality DHA housing is widely acknowledged to play a positive role in the retention of trained personnel and generally is preferred by members. However, RA is also a necessary component of a total housing solution because it provides member choice while assisting DHA to manage its vacancy exposure. A particular benefit of DHA supplied housing is that members can select a home in their new posting location before departing the current location, saving costs in temporary storage and accommodation and limiting the time taken by members to find private rental housing. In 2009–10, 90% of members who occupied a DHA home in their new posting location pre-selected that property before departing the previous location.

Enhanced Land Force

In 2009–10 DHA continued a major program of constructions and acquisitions in response to a Government initiative to increase the size of the Army over the period to 2012. The Enhanced Land Force will result in three infantry battalions, either newly established or relocated, in Adelaide (7RAR), in Brisbane (8/9RAR) and in Townsville (3RAR), bringing significant demand for new housing in these locations. In aggregate, an additional 1,450 accommodation units will be required for families of ADF members including 540 in Adelaide (an increase of 75%), 400 in Brisbane (an increase of 27%) and 500 in Townsville (an increase of 30%). DHA is on track to provide the additional housing in all three locations.

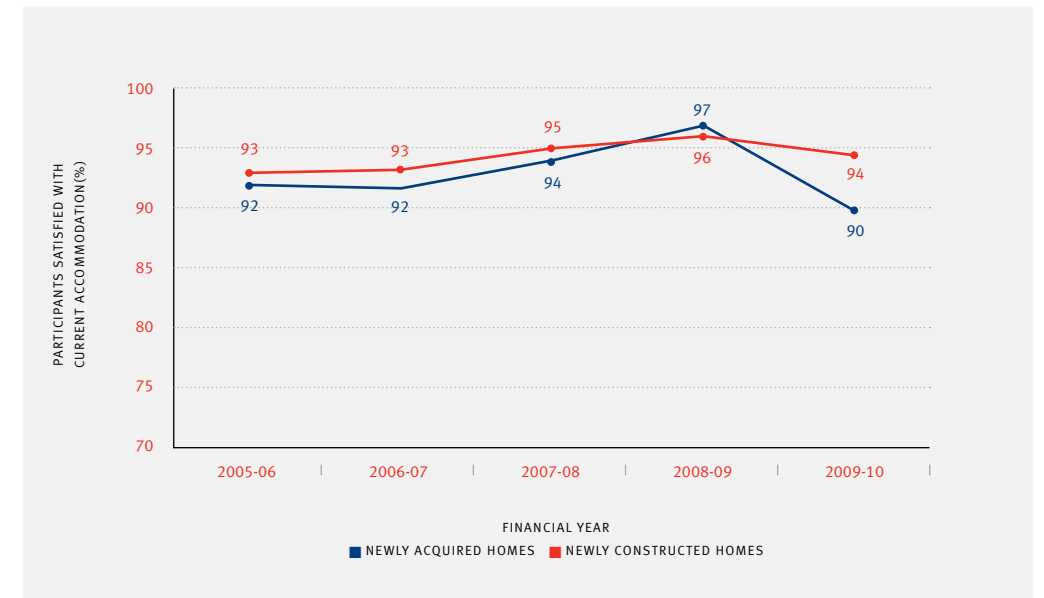
Building, acquiring, leasing

During 2009–10, DHA constructed 965 houses at a cost of approximately \$420 million and purchased a further 165 at a cost of \$78 million. In addition, DHA direct leased 149 properties and wrote new leases on 508 existing properties where leases and options had expired. After taking account of expiring leases and the exercising of 844 options that were at DHA's discretion, net additions to the portfolio in 2009–10 resulted in total stock under management for members with dependants of 17,415 properties, with a further 167 properties handed over but not activated for Defence housing purposes. As noted at the end of this chapter, DHA's total housing portfolio of 18,058 properties is slightly larger than the stock under management for Defence. It includes properties held for the Australian Customs and Border Protection Service, the Australian Maritime Safety Authority, the Darwin singles apartments and properties scheduled for disposal.

Satisfaction with newly acquired housing

Properties acquired by DHA (constructions, acquisitions and direct leases) must satisfy exacting Defence criteria in terms of the quality and level of amenity, inclusions and fittings including such aspects as security, heating, cooling and covered outdoor areas. Satisfaction of ADF members living in these dwellings has been consistently high. In 2009–10, sample sizes for the surveys of newly constructed and acquired properties were 126 and 49 respectively, with results in Figure 2 below.

Figure 2: Customer satisfaction with newly acquired and constructed DHA accommodation, 2005–06 to 2009–10



On-base housing

At 30 June 2010, DHA managed 1,833 Defence-owned properties located on Defence bases and establishments around the country. This on-base portfolio, nearly half of which is located in the Northern Territory, is either owned outright by Defence or financed by DHA under annuity arrangements. Defence pays fees to DHA to cover the cost of the management and maintenance of its on-base portfolio with special arrangements in place to cover 61 properties which are on the Defence heritage register.

In a significant development, Defence and DHA agreed in 2009–10 to a major program of upgrades and replacements across the Defence-owned portfolio, on and off-base. Costing \$250 million over ten years, the program will ensure that all Defence-owned housing meets the new minimum amenity standard by 2017.

The first major project under the 10-year plan is the replacement of housing on Larrakeyah Barracks in Darwin at an estimated cost of \$58 million. Approved by the Parliamentary Standing Committee on Public Works on 24 November 2009, the project involves the demolition of four residences, the removal of 57, and the construction in their place of 97 modern community standard houses.

A second major project is a \$2.7 million program of upgrades to 150 existing residences on-base at Puckapunyal in Victoria. The program includes 10 major upgrades costing \$940,000, 18 minor upgrades costing \$600,000, the construction of 75 covered pergolas at a cost of \$370,000 and upgrades to heating and cooling costing \$800,000.

Furthermore, during 2009–10, DHA commenced detailed planning for a program of upgrades and new housing at HMAS Creswell, at RAAF Base Tindal and on Defence owned land immediately adjacent to Gallipoli Barracks, Enoggera.

During 2009–10, DHA completed the demolition of 35 Defence-owned houses near RAAF Edinburgh in South Australia and continued a program of on-base demolitions at Bonegilla, Victoria.

Heritage housing

During 2009–10, DHA completed a \$4.5 million program of upgrades to 13 heritage-listed properties at the Royal Military College, Duntroon. In the same period DHA also upgraded two heritage-listed residences on HMAS Watson at a cost of \$1.25 million.

At Victoria Barracks, Sydney, DHA continued a major program of upgrades to two heritage-listed buildings to create a total of 10 residences in addition to the Commander's residence (The Bungalow). Originally a hospital store and more recently used as office accommodation, Building 87 has been converted into two three-bedroom residences at a cost of \$1.4 million. Until recently used as a conference facility and for married accommodation, Building 13 is being upgraded to provide eight refurbished residences at a cost of \$4 million.

Sustainable housing

DHA focuses on five key sustainability areas: energy consumption, water consumption, effective waste management, human wellbeing and the biodiversity of local flora and fauna. The principles of sustainable development continued to be incorporated in the decision-making systems, practices and process of DHA in 2009–10.

DHA ensures all newly constructed estates comply with environmental laws and standards. DHA's new construction dwellings incorporate environmental sustainability improvements including reduced energy consumption, reduction in potable water use through AAA rated fixtures and fittings and biodiversity in landscape. Water tanks are provided in accordance with State and Territory Government requirements.

The Council of Australian Governments agreed at its April 2009 meeting to an increase in energy efficiency requirements for new residential buildings to six stars, after March 2011. All new DHA houses tendered after 1 July 2010, in all climate zones, will be designed and constructed to achieve a house energy rating of six stars.

The principles of sustainable development have been incorporated into DHA's decision making systems and processes as required under the *Environmental Protection and Biodiversity Conservation Act 1999*.

ADF Housing and Accommodation Assistance Strategy

The purpose of the ADF Housing and Accommodation Assistance Strategy Project was to develop a strategic framework for domestic ADF housing and accommodation assistance for the period 2009–29. DHA contributed by providing detailed commentary on a range of scenarios developed by the project team. The final report of the project was considered by the Defence People Committee in May 2009 and conveyed to DHA in early July 2009. The report reaffirmed the continuing relevance to the ADF of the Government Policy Goals for Commonwealth Employee Housing (1985).

Property and tenancy management

Overview

Since its inception, DHA has been the sole provider of houses to Defence and has been responsible for maintenance of these properties on behalf of their owners – Defence, DHA and more than 11,000 lessors. In addition, since 2001 DHA has been responsible for the allocation of Defence housing stock to ADF members and management of their tenancies, from welcome to departure. These functions (supply of the portfolio, property maintenance, allocations and tenancy management) are inter-related and DHA derives important economies of scale by delivering them as a package.

New leasing arrangements

Before 1 October 2009, leases of DHA managed housing (all ownership types) were between members and Defence with DHA appointed under the Relocations Services Agreement to manage those leases on behalf of the Department. From 1 October 2009, at the direction of the then Minister for Defence Personnel, Materiel and Science the Hon. Greg Combet AM MP, DHA assumed responsibility for individual member leases. Under a Deed of Surrender, DHA took over all existing leases and from 1 October 2009 all new leases were effected directly between members and DHA.

Housing Management Centres

DHA maintains a physical presence in capital cities, major regional centres and on some ADF bases and establishments around Australia. These Housing Management Centres (HMCs) are the ADF member's first point-of-contact for all housing services including allocations, rent allowance and home maintenance. In addition to managing the incoming member's tenancy, HMC staff members are a valued source of local knowledge on community services and housing market conditions.

Responsive maintenance

Responsive maintenance is a critical component of property and tenancy management. Under the Services Agreement, DHA is contracted to provide a quality 24-hour maintenance service and obligated to deliver high levels of tenant satisfaction with that service. To assist in achieving this objective, DHA established a Maintenance Call Centre (MCC) in 2008–09 to receive and action maintenance calls from tenants and alleviating the pressure on HMCs.

During 2009–10, the MCC operated from DHA offices on the east and west coasts (Hunter and Perth) to provide extended coverage hours and back-up in the event of a major failure. Staff are well trained in the policies and procedures that govern the delivery of maintenance services and can support front-line staff by raising work orders during property inspection to speed up the turnaround of properties between tenancies. During 2009–10, the MCC received a total of 118,732 calls and made approximately 124,000 outgoing calls.

Contractor management

In 2009–10 DHA introduced Contractor Management software (CTM) to assist HMCs to manage contractors and to deliver more consistent and timely maintenance support to tenants. CTM provides an audit trail to assist in value-for-money outcomes and greatly improved visibility of work status especially in relation to emergency maintenance items. Full implementation of new arrangements for house cleaning, floor covering cleaning and ground maintenance has also reaped significant improvements.

Maintenance surveys

DHA measures ADF member satisfaction with customer service, contractor service and overall satisfaction with the maintenance service. Performance with completed and invoiced works remains strong, with 98% of 7,065 tenants in service residences expressing satisfaction with the overall service. Sample sizes in past years ranged from 2,709 to 7,848.

Figure 3: Customer satisfaction with DHA's maintenance services, 2005–06 to 2009–10



Services Agreement on Housing and Related Matters

DHA's relationship with Defence is managed under the provisions of the Services Agreement on Housing and Related Matters, a long-term agreement that was renewed on 1 July 2006. Major elements of the Agreement were updated in 2009 to provide for the inclusion of allocations and tenancy management functions which had been contracted to DHA under the Relocations Services Agreement since 2001.

Other government agencies

A logical extension of DHA's core Defence business is the provision of residential property management services to other Government agencies. This is especially the case for the remote areas of northern and western Australia where several government agencies can be operating from the same location. For example, Thursday Island in the Torres Strait Islands.

Australian Customs and Border Protection Service

DHA has been providing residential property management services to the Australian Customs and Border Protection Service since 2001. Many of the remote housing locations required in support of Customs are also common to Defence. At 30 June 2010, DHA was providing residential property management services to 124 properties.

During 2009–10, DHA and Customs have worked in close partnership to improve service delivery and to design a new contract that better reflects the needs of both agencies. The new agreement will provide a longer term platform for both DHA and Customs to further refine residential management service delivery to Customs Officers in these remote locations.

Customs Officers' satisfaction with DHA's maintenance service overall remains strong, with 98% of tenants being satisfied with 244 work orders nationally. Results for overall satisfaction are presented below. Sample sizes in past years ranged from 201 to 323.

Figure 4: Overall Customs Officer satisfaction with DHA's maintenance service, 2005–06 to 2009–10



Australian Maritime Safety Authority

In December 2009, DHA and the Australian Maritime Safety Authority (AMSA) executed an agreement for the delivery of residential property management services. AMSA Officers are located in the same remote locations as Defence and Customs, so the economies of scale are beneficial for this new government client. A full baseline assessment has been carried out for all AMSA properties to identify and scope the improvements required for their portfolio.

Total stock under management

In addition to housing stock supplied to meet Defence requirements, DHA holds some houses pending disposal and small portfolios for the Australian Customs and Border Protection Service and for Defence singles (the Darwin apartments). The total DHA portfolio is summarised in the table below.

Table 1: DHA Housing Portfolio 2009–10

	Purchases		Sales			Leases			Housing Stock at 30 June 2010					
	Newly acquired properties	Newly constructed properties	Sale and Leaseback program	Disposals (surplus properties)	Handback of on-base Defence stock	Direct leases	Lease options	Lease conversions	DHA owned	Leased from investors	Defence off-base annuity	On-base Defence stock	Other managed stock	Total housing stock
DARWIN	11	156	49	3	2	18	11	145	388	953	10	728	8	2087
TINDAL	0	0	0	3	0	0	6	20	3	105	100	193	0	401
CAIRNS	0	5	7	0	0	1	9	4	9	231	5	0	0	245
TOWNSVILLE	35	263	113	9	0	20	70	48	624	1201	33	7	28	1893
BRISBANE	38	187	102	0	0	8	28	11	458	1109	4	82	0	1653
IPSWICH	3	89	65	9	0	3	27	3	104	665	36	0	0	805
TOOWOOMBA	5	8	11	7	0	2	1	8	16	177	26	6	0	225
SYDNEY	13	20	42	71	0	14	293	101	1054	2136	11	54	0	3255
HUNTER VALLEY	1	30	29	5	0	6	47	56	123	867	65	0	0	1055
NOWRA	0	16	13	1	1	6	38	1	17	290	29	36	2	374
CANBERRA	0	12	122	6	0	8	118	52	208	1561	0	194	0	1963
ALBURY/WODONGA	5	23	12	0	11	7	12	7	30	238	28	1	0	297
WAGGA WAGGA	0	2	22	0	6	14	4	7	4	234	119	84	0	441
MELBOURNE	10	67	6	5	1	12	77	8	309	611	141	423	0	1484
ADELAIDE	33	87	57	2	31	6	51	17	240	648	4	16	2	910
PERTH	11	0	31	3	0	24	52	20	231	642	21	9	67	970
AUSTRALIA TOTAL	165	965	681	124	52	149	844	508	3818	11668	632	1833	107	18058

Major projects

Muirhead, Darwin

Muirhead will be a new suburb of Darwin located about 15 kilometres from the CBD. The major portion of the land was bought from Defence in June 2006 and the remaining 15 hectare portion was purchased in January 2010. Stage one of the project was approved by the Parliamentary Standing Committee on Public Works in June 2010.

The suburb will be master planned and will provide over 1,000 homes designed for Darwin's tropical climate. About 30% of the development will be open space providing for both passive and active recreational activities. Under a Memorandum of Understanding with the Northern Territory Government, DHA will take 30% of lots for Defence housing purposes. A further 15% will be designated for affordable housing initiatives and the balance sold on the open market.

Land development for stage one (166 lots) is scheduled to commence in the second quarter of 2010-11 with homes completed by end-2012.

Voyager Point, Sydney

59 homes for Defence families will be constructed at Voyager Point, a 16 hectare site that was purchased from Defence in 2003. The project was approved by the Parliamentary Standing Committee on Public Works on 24 June 2010. Following development, serviced lots surplus to Defence requirements (estimated 78) will be sold on the open market. The total project cost is \$45 million. The DHA homes are scheduled for completion by mid-2014 and will mainly service the large Defence population at the nearby Holsworthy Army Base.

Gordon Olive Estate, Brisbane

51 homes for Defence families will be constructed at Gordon Olive Estate in Brisbane in a development estimated to cost \$27 million. The DHA houses will be a combination of detached housing (30), townhouses (17) and duplexes (four). A residual of 10 standard lots and one super lot (with potential for up to 47 units) is planned to be sold to the private market. The estate is well located in relation to Gallipoli Barracks, Enoggera and is expected to be very popular with ADF families. The project was approved by the Parliamentary Standing Committee on Public Works on 24 November 2009 and work on the project is now well advanced. Delivery of houses is expected to be complete by June 2011. Civil works have commenced and building works are scheduled to commence in October 2010.

Crace, Canberra

Up to 300 homes for Defence families will be constructed in the new Canberra suburb of Crace over the next four years. DHA is a member of a consortium that won the right to develop Crace in a joint venture with the ACT Government's Land Development Agency. A total of 1,430 residential blocks will be released for sale as a result of the development. The first release of land settled in early 2010 and has been tendered for construction. DHA has 35 allotments and construction is expected to finish in late 2010. Work is now underway to select and contract the next release of allotments, including 100 for DHA in FY 2010-11.

Larrakeyah, Darwin

97 new homes for Defence families will be constructed following the demolition of four and the removal of 57 existing residences on Larrakeyah Barracks in a two-stage project approved by the Parliamentary Standing Committee on Public Works on 24 November 2009. Work on stage one is expected to commence in August 2010.

Dundas, Sydney

40 homes for Defence families will be constructed at Dundas, Sydney with work scheduled for completion by August 2010. The first contract for 20 houses was completed in April 2010. The second contract for a further 20 dwellings funded under the Nation Building – Economic Stimulus Plan is well in hand.

Everton Park, Brisbane

32 townhouses for Defence families will be constructed on a site at Everton Park, Brisbane that was acquired in February 2008. It is well-located in relation to Gallipoli Barracks, Enoggera, and is only eight kilometres from the Brisbane CBD. Final deliveries are due by December 2010. Funding of \$12 million is from the Nation Building – Economic Stimulus Plan.

Pickering Hill, Brisbane

62 homes for Defence families have been delivered in the Pickering Hill Estate in the northwest of Brisbane. Located about eight kilometres from Enoggera, the estate features attractive rural views and includes two significant parks.

Lyons, Darwin

344 homes for Defence families are in the final stages of delivery in the new Darwin suburb of Lyons. The project to develop Lyons is a joint venture between DHA and Canberra Investment Corporation Australia. The suburb is well located in relation to the Darwin CBD and is already proving popular with Defence families. Funding for DHA house constructions is a combination of normal DHA sources and the Nation Building – Economic Stimulus Plan.

Weston Creek, Canberra

In 2009–10, DHA acquired an 8.2 hectare site in Weston Creek from the ACT Government. The site is zoned for residential use and will be developed over the next three to four years. In addition to being in a very attractive and well located part of Canberra, the site is also very close to the Australian Defence College site at Weston.



Moving Defence people

Objectives

Major outcomes

Relocations administration

Customer service

Information and communication technologies

Objectives

Enhancing customer service experience and perceptions.

Information technology solutions supporting business capabilities.

KEY PERFORMANCE INDICATOR	2009–10 TARGET	2009–10 ACHIEVEMENT
ADF member satisfaction with overall DHA relocations	80%	97%
Satisfaction with customer service		
Relocations	80%	97%
Maintenance	80%	95%

Major outcomes

- Administered the relocation of more than 36,000 members (including relocations not at Defence expense) with very high levels of member satisfaction with the service provided.
- Delivered another successful peak posting outcome with more properties on HomeFind earlier in the posting cycle leading to high levels of pre-allocation rates.
- Provided direct support to ADF operations by coordinating large numbers of relocations including family support moves and movements to storage for members on deployment.
- Implemented a transition-out plan for the transfer of relocations administration functions to the new provider, Toll Transitions, on 1 July 2010.

Relocations administration

Overview

Since 2001, DHA has provided relocations services to all ADF members. Provided under the auspices of the Relocations Services Agreement, these services include the administration of relocations associated with overseas deployment (e.g. a single member moving out of private rental accommodation), relocations due to changes in personal circumstances (e.g. breakdown of a marriage), relocations due to purchase of own home and DHA-initiated moves (e.g. hand-back of a service residence at end-of-lease). During the period since 2001, DHA has managed the relocation of more than 250,000 ADF members.

Relocations aid workforce mobility

In order to sustain high levels of operational capability, the ADF must have the right people in the right locations, at the right times and accordingly the Services need to be able to redirect their people on posting to new locations. The ADF is thus a mobile workforce. Sometimes these personnel moves can be at short notice; often they involve the disruption of family life; and increasingly, they can be associated with operational deployment. DHA aims to facilitate member relocations with a minimum of fuss and, especially where families are involved, to minimise the inevitable disruption involved when moving house.

Relocations 'events' in 2009–10

In 2009–10, DHA administered more than 36,000 relocation 'events' involving ADF members (with and without dependants). Of this total, nearly 11,000 'events' involved ADF members moving for posting reasons, 7,000 were for ADF members moving to/from courses around Australia and some 5,000 were associated with members changing private rental accommodation. There were also approximately 2,500 relocation 'events' involving members leaving the ADF.

In 2008–09, DHA staff in the North Queensland office supported the operational deployment of more than 1,000 members from the Townsville-based 3rd Brigade. Most of those members returned to Townsville during February 2010 when they were again supported by the North Queensland office in relation to accommodation solutions, movement of effects out of storage and the processing of related allowances.

Building on success in 2008–09, DHA delivered an even more successful peak posting cycle in 2009–10. In the period leading up to the peak, DHA processed some 11,500 posting orders that were to take effect in the December – February period generating approximately 9,000 relocations. Once again, the key to success was a determined campaign to make early contact with posted members to get them to submit relocations paperwork early, enabling DHA to provide early notification of removals to Toll and to make advance bookings for temporary accommodation. In turn, this meant more properties were on HomeFind early in the process leading to historically high levels of pre-allocation rates.

Relocations on posting

The involvement of DHA in the relocation of members on posting is initiated when Defence provides DHA with a posting order and, in the case of a married member who selects a service residence in the new location, concludes with a welcome visit to their new home. As part of the relocations process, a DHA case manager will generate a movement plan, supervise the relocation process, approve inventories for removal, arrange temporary accommodation and payment of allowances, and coordinate with other service providers to ensure a minimum of inconvenience to members and their families.

Where the relocation of a member culminates in the occupation of a DHA-managed service residence, relocations administration gives way to DHA tenancy management in a seamless transition. Families are met in their new service residence for a 'welcome to your new home' meeting at which a DHA staff member provides a Welcome Kit and undertakes a condition report inspection of the home.

Relocations satisfaction

DHA's quarterly relocations survey measures customer satisfaction with the complete relocation process. Positive results in customer satisfaction continued through 2009–10 with 97% of 5,738 participants indicating that they were satisfied with their total relocation experience. This exceeded the target of 80%. Sample sizes in past years ranged from 1,724 to 4,854.

Figure 5: Customer satisfaction with total relocation experience, 2005–06 to 2009–10



Relocations Services Agreement

The Relocations Services Agreement, under which DHA provided relocations administration services to Defence since 2001, expired on 30 June 2010. In December 2009, Defence announced that Toll Transitions was the successful tenderer for a replacement contract, with a commencement date of 1 July 2010. Consistent with its obligations under the expiring agreement, and in order to minimise disruption to members and their families, DHA has been fully engaged with Defence and Toll Transitions with a view to a transfer to the new arrangements on 1 July 2010. DHA allocation and tenancy management services, which were also provided under the Relocations Services Agreement, were transferred to a revised Services Agreement that took effect on 1 October 2009.

Customer service

Communicating with ADF members

DHA communicates with ADF members in a variety of ways reflecting the expectation that modern electronic communications will be available to support the housing and relocations processes. There is no substitute, however, for a personal level of case management. In this regard, DHA has found it beneficial to deploy its physical and human presence in capital and major regional centres to support relocations as well as its core housing functions.

DHA staff members are regular participants at briefings to ADF members in the lead up to the peak posting period and for ongoing support. DHA maintains an up-to-date web presence via a portal to the full range of its housing and relocations services. Communication and marketing materials are also used to inform ADF members and their families of the services available and how to use them.

DHA maintains hard copy publications and online information products to assist customers to understand and access housing and relocation services. Hard copy publications are distributed via the HMCs and stakeholder groups such as the Defence Special Needs Support Group, Defence Families of Australia and the Defence Community Organisation.

Customer Service Institute of Australia

With thousands of interactions every day with ADF members and their families, maintenance providers, builders, agents and accommodation providers, DHA is a customer service oriented business.

In 2005, in recognition of the need to improve its performance at the customer interface, DHA sought certification with the Customer Service Institute of Australia (CSIA), Australia's peak customer service organisation. The CSIA offers evaluation and certification by licensed assessors against 29 International Customer Service Standards.

Certification by the CSIA provides independent recognition of the quality of customer focus across the organisation (service, learning and growth, financial and operational) and is a recognised benchmark in both the public and private sectors. In addition to the certification audit process, the CSIA offers valuable insight and coaching in customer service.

In October 2009, in recognition of its progress in this area, DHA was awarded a 'highly commended' in the category of ACT, State and Federal Government for an Australian Service Excellence Award for 2008–09.

Although recertified by the CSIA in each of the three years following initial certification, DHA did not seek recertification in 2009–10 owing to the impact on its business this year of the transfer of relocations administration services to Toll Transitions. DHA will seek recertification for the fourth time in 2010–11.



Information and communication technologies

Overview

During 2009–10, DHA continued the development of new and improved information technology solutions while sustaining the Business as Usual capabilities that are so crucial to its operations. DHA is inherently dependent on robust systems to support and enable delivery of services – property management, leasing operations, customer relationship management, staff training and development etc. These systems enable and support thousands of interactions every week with Defence members as tenants, and with builders, contractors, lessors, valuers, staff and Government. Innovation driven upgrades and improvements are crucial to more efficient and effective business outcomes.

Development

In 2009–10, in addition to maintaining and enhancing enterprise systems such as PMS (Property Management System), TMS (Tenancy Management System) and HomeFind, DHA has commissioned a number of subordinate systems to improve the productivity of staff and the efficiency with which business is delivered.

- **CWB (Capital WorkBench)** – to assist the Property Provisioning Group with management of the delivery of development, construction and upgrade projects. CWB is intended to foster a culture of disciplined collaboration and consistency of reporting through the planning, tendering, construction and handover phases of the development cycle.
- **CTM (ConTractor Maintenance)** – to improve the efficiency with which contractor work orders are generated, allocated and managed. Reflecting its commitment to greater openness, access to CTM has been extended to tenants and contractors.
- **HSM (HouSing Management)** – to provide a property-centred view that facilitates capital asset management of DHA's property portfolio and assists with meeting stringent KPI targets.
- **CLM (CLient Management)** – to provide DHA customer-facing staff with up-to-date and relevant information about the ADF members who are tenants of DHA properties. CLM will facilitate improved levels of customer service system and, like HSM, assist DHA to meet stringent KPI targets.
- **Lessors Online** – to enable lessors to review and print property statements online while minimising printing and mailing costs and to improve the timeliness and quality of DHA communications with them.

Gershon and Government 2.0

DHA is ahead of Government mandated targets associated with the implementation of the recommendations of the Gershon Review.² In particular, the new systems and applications discussed above reflect DHA's commitment to a recommendation that agencies rebalance spending on information and communications technologies in favour of the development of new capabilities.

DHA has also been mindful of the more recent work of the Government 2.0 Taskforce that addressed the application of the principles, tools and approaches loosely associated with advent of Web 2.0 to achieve a more consultative, participatory and transparent government. DHA believes that these principles, tools and approaches are directly relevant to the achievement of a core objective, namely, enhanced customer service experience and perceptions.

Green IT

DHA is committed to more environmentally friendly information technology solutions and is a participant in the Australian Government Information Management Office 'Green ICT Quick Win' program. Under the program a data room has been decommissioned and upwards of 80 servers retired. These have been donated to the Government's 'Computer Technologies for Schools Project'.

² Review of the Australian Government's use of Information and Communication Technology by Sir Peter Gershon.





Building for the nation

Background

Background

On 3 February 2009, the Australian Government announced that it would finance a \$42 billion Nation Building – Economic Stimulus Plan (NB-ESP) to support jobs and invest in future long-term economic growth. Projects to be funded were expected to deliver lasting benefits for communities across the nation, while boosting local infrastructure and supporting job creation.

The Australian Defence Force community benefited directly from the stimulus plan as a result of a decision to allocate \$251.6 million to DHA to fund the construction of 802 houses over the two-year period to 2010-11. The funding was for construction costs only, with building taking place on land already held. DHA was also required to deliver its Business As Usual program of more than 1,000 house constructions over the same period.

Subsequently, the amount was reduced to \$245.6 million although, as a result of cost savings through construction efficiencies, DHA was able to increase the number of houses to be delivered under the program to 829.

Table 2: Location and number of houses funded by the Nation Building – Economic Stimulus Plan

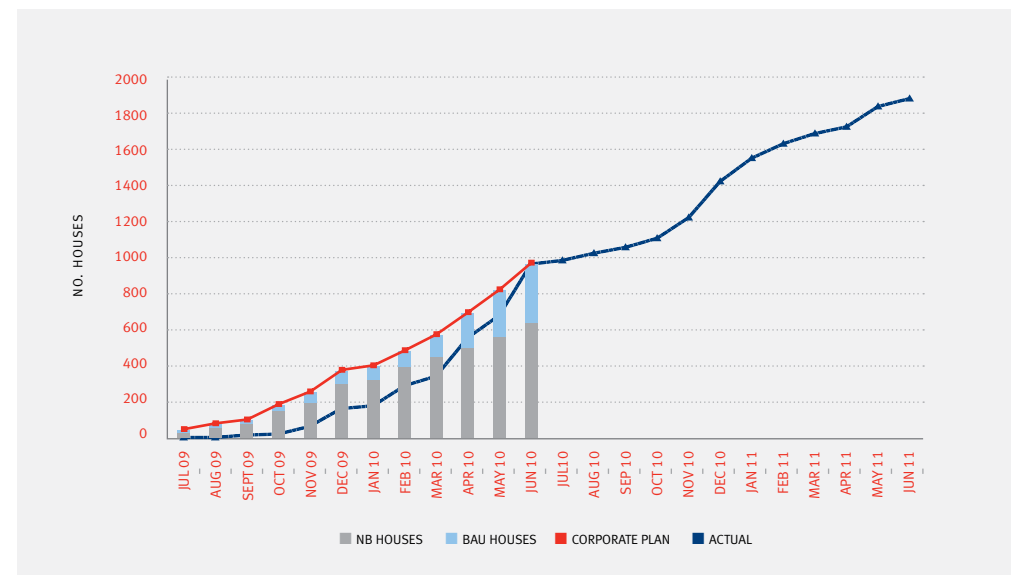
	2008–09 Completed houses	2009–10 Completed houses	2010–11 Scheduled completion	Total program
Adelaide		75	52	127
Brisbane	1	85	39	125
Cairns		5		5
Canberra		10		10
Darwin		149	36	185
Hobart		10		10
Hunter		30		30
Ipswich		75	36	111
Melbourne		54	2	56
Nowra		16		16
Sydney			20	20
Toowoomba		8		8
Townsville	2	116		118
Wagga Wagga		2		2
Wodonga		6		6
Total	3	641	185	829

Getting on with the job

Following the Government's announcement in February 2009, DHA moved quickly to contract its 2009–10 construction program, so much so that by 30 June 2009, the first three of its NB-ESP houses had been handed over. Less than six months later, by 4 December 2009, all 829 houses in the revised NB-ESP program had either been completed or were under contract for construction.

By the end of December 2009, 303 houses (37%) had been handed over and were available to be occupied by ADF members moving during the busiest stage of the annual posting cycle. By the end of April, the number of completed houses passed the 500 mark and by the end of 2009–10, 644 had been handed over. DHA expects the entire program of 829 houses to be complete by March 2011, three months ahead of schedule.

Figure 6: House constructions under contract



More energy efficient homes

The stimulus plan coincided with a major initiative by the Federal Government to improve the energy efficiency of residential houses by mandating a six-star energy efficiency rating for new houses from 2011. DHA agreed to early adoption of the higher standard by specifying a six-star rating as an option for all new houses in its 2010-11 new construction programs. By 30 June 2010, DHA had contracted 400 houses to the new six-star standard and eight houses to meet seven-star energy efficiency.

Opportunities for apprentices

In March 2009 and coinciding with NB-ESP, DHA initiated a scheme to support the creation of apprenticeship places in the residential construction industry. Under the DHA Apprenticeship Support Scheme (DASS), DHA decided to subsidise the cost of creating or sustaining 20 apprenticeships. DHA will meet 50% of the costs of each apprentice who will be engaged as far as practicable on DHA residential construction sites. The apprenticeships are distributed as follows:

- Brisbane – seven
- Townsville – six
- Canberra – three
- Adelaide – two
- Darwin – two

Economic stimulus and job creation

In accordance with advice provided by consultants Essential Economics Pty Ltd³, DHA estimates that by March 2011, its NB-ESP funded construction activity will have generated some 660 jobs directly, and a further 1,650 jobs indirectly.

Communication

DHA maintains its own NB-ESP website at dha.gov.au and contributes to the Federal Government NB-ESP website at economicstimulusplan.gov.au. In addition, DHA provides regular updates to the Department of Prime Minister and Cabinet, Department of Finance and Deregulation and the Department of Defence.

³ Essential Economics Pty Ltd, *Measuring Economic Benefit of Dwelling Construction and Maintenance Programs of DHA*, Final Draft Report dated January 2009 which estimates one direct job created for every \$370,000 spent on construction, and a multiplier of 2.5 for indirect jobs.





Our people, our strength

Objective

Major outcomes

Objective

Motivated and engaged staff.

KEY PERFORMANCE INDICATOR	2009–10 TARGET	2009–10 ACHIEVEMENT
Retention of staff	>75%	84.08%
% of current employees with DHA tenure > 2 years	>70%	84%
Occupational Health & Safety incident rate (per 100 employees)	<2.0 incidents resulting in time off work	0.85 incidents
% of salaries spent on training DHA staff	>1.00%	1.27%

Major outcomes

- Delivered the first year of the HR Strategic Plan 2009–2012, focusing on development of DHA's human capital.
- Implemented DHA's new Collective Agreement for 2009–11. 98% of non-Senior Executive Service staff have elected to be covered by the CA.
- Implemented a transition strategy in response to the loss of the relocations function including consultation, vocational support, individual coaching, retraining and skills development for DHA people in positions at risk.
- Managed DHA's apprenticeship support program for the placement of 20 new apprentices on DHA building sites nationwide.
- Implemented the Learning and Development Strategy 2009–2012, including DHA specific management training, online learning tools and a new electronic personal development program.
- Implemented the OH&S Action Plan 2009–2010 resulting in greater staff awareness of OH&S to support DHA's objective of providing a healthy and safe workplace.
- Launched the HR Network, a communication tool targeting middle and senior managers and providing for the improved communication of people management information.

Overview

DHA recognises that sustainable competitive advantage is achieved by aligning people competencies with the changing needs of the business. DHA is also committed to motivating its employees by providing a workplace that supports and rewards high performance, innovation and development. DHA's approach and its HR programs have been developed to attract and retain the people with the skills and attributes needed to achieve our objectives.

An innovative HR Strategic Plan 2009-2012 was designed in consultation with our staff. The Strategy provides the framework for achieving our corporate objectives. The Strategy identified the following human resource challenges over the next three years:

- remaining a competitive employer
- attracting staff with appropriate skills and expertise for the business
- creating and maintaining a more flexible workplace
- retaining staff
- developing staff to ensure that they all have the opportunity to work 'smarter' and are considered under succession planning strategies, and
- ensuring the business is able to respond to human resource requirements.

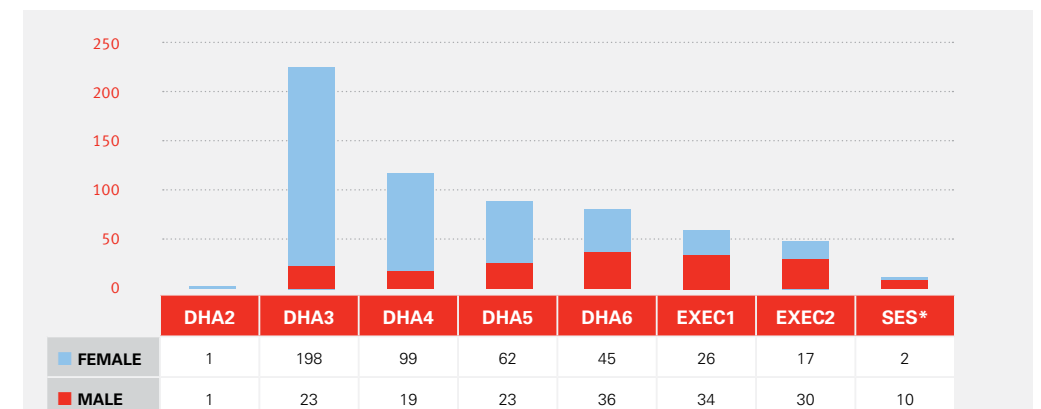
Staffing profile

The *DHA Collective Agreement 2009–2011 (CA)* covers all non-Senior Executive Service (SES) staff other than a small number of staff that remain covered by an individual Australian Workplace Agreement (AWA). DHA's SES staff are all covered under individually negotiated Common Law Contracts (CLCs).

As at 30 June 2010, the number of non-SES staff employed under the CA was 632 (98%), with only 10 staff (1%) employed under an AWA.

DHA continues to provide staff with the option of remaining on their AWA or transitioning to the new CA. The majority of DHA staff have elected to terminate their AWA.

Figure 7: DHA staff by classification and gender at 30 June 2010



* SES figures include one female and five males classified at the SES band 1 level, one female and four males classified at the SES band 2 level and one male classified at the SES band 3 level.

Collective Agreement

The Collective Agreement (CA) commenced operation in early June 2009 and is meeting its key objectives of greater flexibility and enhancing a high performance culture. The new CA has been supported by the development of new policies and guidelines that include the national employment standard provisions of the *Fair Work Act 2009*.

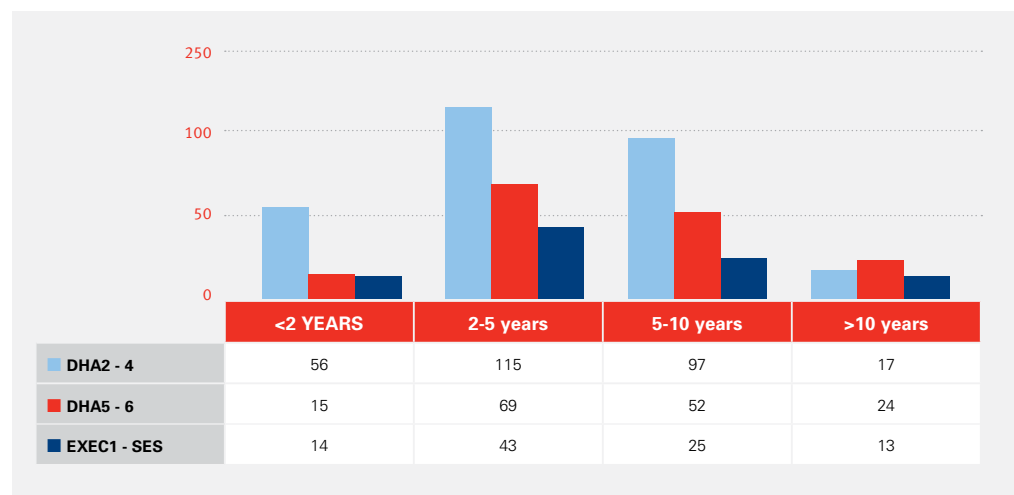
Transition to the CA

Transition of staff to the new remuneration and conditions of service of the CA was completed within the first month of its operation. The implementation of the CA included the accurate and timely processing of applicable salary increases, increasing the standard weekly hours of duty, updating leave entitlements, adjusting leave balances and completing associated database configuration changes using in-house expertise.

The CA has been embraced by DHA staff with 98% electing to terminate their AWA and move to the CA since it became operational. As well, DHA has experienced the positive benefits of a reduction in unplanned absences and an improved rate of staff retention across the business, most notably in regions that have historically experienced challenges in retaining staff. DHA achieved significant savings in direct recruitment costs, improved service delivery and an increase in individual staff productivity due to the higher average experience base of staff. Over 80% of ongoing staff now have more than two years of DHA service, with 50% of those employees having more than five years of DHA service.

DHA also benefits from 80% of the leadership group, represented by ongoing staff at classification levels Executive Level 1 to SES, having more than two years of DHA corporate knowledge and experience.

Figure 8: Ongoing staff by length of DHA service and classification at 30 June 2010



Conditions and entitlements

DHA staff covered by the CA are provided with flexible and competitive remuneration packages and an extensive range of employment conditions in recognition of skills, qualifications, performance and contribution to the business. The CA packages include guaranteed salary increases, access to performance bonuses, employer superannuation contributions and, for eligible high performers, a higher percentage annual salary increase. CA remuneration also includes provisions for special allowances and other payments. All staff have access to flexible remuneration packaging and choice of superannuation fund.

Special allowances

To assist DHA in attracting and retaining staff with specialist skills, expertise and qualifications critical to the effective operation of the business, special allowances are available. The CA also recognises appropriately trained and qualified staff undertaking key roles to support a safe and healthy DHA work environment by providing these staff with an additional role allowance. The important roles include Occupational Health and Safety (OH&S) Officer, First Aid Officer, Fire Warden, Deputy Fire Warden and Workplace Harassment Contact Officer and are performed in addition to the staff member's job role.

Northern Territory Payment

In 2005 DHA initiated a retention bonus program in the Northern Territory, developed to motivate and retain skilled staff in this challenging region during the peak posting period from October through to February each year. Due to the continued success of the program the Northern Territory Payment is included in the CA. The first CA payment was made to 71% of Northern Territory staff in February 2010 and there has been substantial improvement in retention of staff in the Northern Territory.

Performance bonus

DHA has a performance-based, outcomes-focussed culture that is underpinned by a refined Performance Development Scheme and performance management provisions in the CA. Staff members are required to develop a Performance Development Agreement (PDA) in consultation with their manager, reflecting the objectives of DHA's Corporate Plan. The performance of staff is reviewed and assessed against an agreed PDA and high performers are rewarded with a performance bonus. For the 2009 appraisal year 86% of eligible staff across all classification levels received a performance bonus.

DHA gives staff members the option to salary sacrifice their performance bonus into their choice of an approved superannuation fund, subject to Australian Taxation Office legislation.

Table 3: CA salary ranges

CA CLASSIFICATIONS	JUNE 2010	
	MINIMUM OF RANGE:	MAXIMUM OF RANGE:
Trainee Junior	\$37,260	\$42,435
Broadband 1:		
DHA Level 2	\$42,724	\$47,903
DHA Level 3	\$48,120	\$53,318
DHA Level 4	\$53,169	\$59,412
Broadband 2:		
DHA Level 5	\$59,901	\$65,380
DHA Level 6	\$66,126	\$76,030
Executive Levels:		
Executive Level 1	\$79,758	\$97,977
Executive Level 2	\$92,510	\$122,414

The Collective Agreement salary ranges will increase by 3.5% on 1 October 2010.

Maternity leave handbook

In 2010 DHA released a Maternity leave handbook, concluding a development process that focussed on improving staff understanding of the support offered by DHA in relation to maternity and parental leave entitlements.

The design and scope of the handbook also incorporates the provisions of the *Fair Work Act 2009* and the National Employment Standards (NES) introduced in January 2010. Since its release there has been a high level of interest in the handbook from staff.

HR information systems

DHA's HR Management Information System (HRMIS) was successfully upgraded to ensure the latest functionality with the benefit of enhanced and user-friendly self service operations and facilitates ongoing cost effective software support from the systems provider. A new Quick Reference Guide was developed to assist staff to understand the new functionality. System improvements and user documentation have been developed to reduce the administrative burden for staff using the system and provide valuable up-to-date people information for managers.

Exit survey

As part of its HR Strategy, DHA identified and implemented improvements to the sourcing and reporting of exit survey information. This has resulted in the release of a new electronic exit survey in DHA's HRMIS providing DHA with the ability to report trends in key aspects of its HR management approach.

Understanding the concerns and motivations of the DHA workforce is a key issue in the motivation and retention of staff and the development of staff members to their full potential. The new exit survey is one of a number of supporting tools DHA uses in its continuing efforts to ensure its competitiveness in the broader employment market.

HR network

In October 2009 DHA launched the HR network. The HR network is a tool targeting middle and senior managers in the organisation. It supports communication of people management information to DHA's leadership group with the objective of enhancing DHA's approach to change management.

The initiative was developed following consultation with managers and feedback from staff in all business areas. It delivers information on developments providing background, context and interactive sessions before formal release to the organisation. In addition, the network provides a conduit and forum for discussion directly with managers on their views regarding management issues and topical matters affecting the workplace.

The network has been used to respond to organisational challenges during the year, including the relocations transition project, policy issues driven by the implementation of the CA and the implementation of changes resulting from the *Fair Work Act* and National Employment Standards.

Staff Consultative Group

DHA staff elect employee representatives from each region to form the Staff Consultative Group (SCG). The SCG, where possible, consists of staff at varying classification levels and convenes on a regular basis to consult on issues impacting on the work environment. During the year the SCG met regularly and was involved in topical workplace issues, including the relocations transition project and finalisation of HR policies related to the new CA.

Learning and development

In line with its Learning and Development Strategy 2009-12, DHA seeks to develop its staff by ensuring they have the opportunity to reach their full potential and thus to maximise their contribution to the organisation. DHA provides its staff with access to learning and development initiatives, customised to the needs of individual staff and designed to support and encourage them in the setting of personal and team goals. The key learning and development initiatives include:

- development and provision of in-house management training that focuses on the development of staff management and leadership skills at the middle management and supervisor levels
- providing all staff with direct access to the full suite of Microsoft online training services, facilitating up-to-date learning resources for Microsoft software used in DHA and catering for staff at different skill levels, and
- design and implementation of a Personal Development Agreement (PDA) online service. A significant focus in the PDA is the identification of areas for future development, career progression and skills enhancement. The PDA online will be used for the first time in the 2009-2010 appraisal year.

DHA also provided significant assistance to staff via the Studies Assistance Program, providing financial assistance for approved tertiary courses recognised as enhancing DHA.

Rewards and recognition

DHA has a number of innovative remuneration and conditions-of-service based entitlements that recognise outstanding performance and contribution to DHA by staff. In addition to these incentives, DHA rewards exceptional staff achievement with formal awards including:

- service awards for five, 10, 15 and 20 years DHA employment for staff who have maintained extensive periods of dedicated service, and
- annual DHA Awards for Excellence for exceptional individual staff performance in their respective business unit. The 2009 award winners are below.

Table 4: Annual DHA Awards for Excellence, 2009

EMPLOYEE OF THE YEAR	
National recipient	Wendy Dell
BUSINESS UNIT RECIPIENTS	
People and Corporate Resources	Paul Aspinall
Client Relations	Carolyn Bradly
Business Solutions and Technology	Robert Beardow
Sales and Marketing	Jaime Shields
Finance	Nicholas Caggiano
Property Provisioning Group	Russell Stephenson
Operations Service Delivery	Kelly Bridge
New South Wales Region	Wendy Dell
Victoria/Tasmania Region	Scott Pedrotti
South Queensland Region	Emma Baker
North Queensland Region	Leanne Cordner
Northern Territory Region	Nicole Brophy
South Australia Region	Mary Radak
Western Australia Region	Kirstie Hicks
Riverina HMC	Cathy Harrison
Canberra HMC	Michael Singh

Occupational Health & Safety

DHA is committed to ensuring the health, safety and welfare of its staff and of other persons at or near DHA workplaces. It takes all reasonable steps to eliminate or control hazards and to minimise any risks which might be associated with DHA activities. DHA regards the requirements of the *Occupational Health and Safety Act 1991* and the associated Regulations, Codes of Practice and Australian Standards as the minimum standards to be achieved.

OH&S Management

To assist managers to better understand their obligations and improve their vigilance and activity in relation to OH&S risk, reporting and management, DHA introduced a comprehensive OH&S Guide for Managers in March 2010.

This year DHA has achieved the following:

- updating the induction program to include relevant, easy to understand OH&S awareness information for new staff
- a review of OH&S contractor management arrangements to ensure quality, value-for-money provision of OH&S services for the organisation and staff
- the delivery of a well received OH&S presentation to DHA staff across Australia, with the aim of increasing staff awareness of OH&S in DHA providing an interactive face-to-face forum and reminding staff of their obligations in maintaining a safe work environment, and
- the development and distribution of a motor vehicle pamphlet, reminding staff of safe driving practices while using DHA vehicles for official business purposes.

Health and safety management arrangements

Using a consultative approach and in accordance with the *Occupational Health and Safety Act 1991*, DHA undertook a review of its health and safety management arrangements (HSMAs) and policies. The review identified changes necessary to OH&S policies and procedures that will improve DHA's ability to ensure compliance with its legislative obligations and its ability to identify and target risk areas.

Incident reports

DHA's health and safety management arrangements reflect a strong commitment to preventative action in relation to the identification and handling of potential injury risk.

In 2009–10, 71 OH&S related incidents were reported, of which six incidents required the staff member to take time off work. Although there were no incidents requiring notification to Comcare, this is an increase on the number of reported incidents in the previous year. This can be attributed to the increased staff awareness of OH&S issues in the workplace and encouragement from managers and health and safety officers for staff to report all OH&S related incidents, no matter how minor.

Workers compensation

Workers compensation claims were submitted by eight staff members during 2009-10 of which Comcare accepted liability for four.

OH&S directions, notices and investigations

No directions, notices or investigations under the *Occupational Health and Safety Act 1991* were conducted or given to DHA in 2009-10.

DHA Apprenticeship Support Scheme

The DHA Apprenticeship Support Scheme (DASS) has successfully completed one year of the four-year program. The majority of the apprentices are engaged on DHA residential construction sites.

Records management

DHA actively fosters a culture of effective records management practices across the organisation. Major records management achievements during the year include:

- the successful upgrade of DHA's Records Management System, providing staff with a modern electronic environment with enhanced reporting and file management functionality
- the establishment of a business relationship between our WA office and the records storage facility in WA of our file management provider, resulting in cost reductions for records storage, retrieval and associated transportation
- the consolidation of DHA record types from 176 to 106. In excess of 130,000 records were successfully migrated to the new record types, aligning DHA with best-practice record keeping, and
- the introduction of an online records management learning module which is required training for all staff. The learning module provides staff with an overview of their record keeping responsibilities and obligations in the context of their role as a DHA staff member. Completing this module has been added as a key component of the staff induction process.

Workplace giving program

DHA introduced a workplace giving program that enables staff to donate to charities or organisations of their choice by way of regular payroll deductions before tax. The program is voluntary and offers staff a convenient way of spreading their donations over a financial year.





Investing with DHA

Objective

Major outcomes



Objective

Healthy long-term financial structure.

KEY PERFORMANCE INDICATOR	2009–10 TARGET	2009–10 ACHIEVEMENT
Percentage of lessors satisfied with overall property management service	90%	95%

Major outcomes

1. Revised the forecast sales target up to \$325 million, capitalising on realised improvement in buyer sentiment and strong sales orders.
2. Refreshed the sales value proposition, with a focus on income security, value, yields and transparency, in addition to the standard features and benefits of the sale and leaseback (SLB) product.
3. Achieved a significant response from institutional and wholesale investors to purchase and leaseback sizeable portfolios of DHA property holdings.
4. Created and implemented a new plain English edition of the DHA Lease Agreement.
5. Developed and implemented the Lessor Handbook which is provided to lessors in recognition of the purchase of a DHA investment property.

Overview

Sales and leasing activities play a vital role in enabling DHA to provide quality housing for ADF members. In particular, revenue generated from the sale and leaseback of property is DHA's primary source of capital. At the end of the reporting period, more than 11,000 properties, or around 65% of DHA's property portfolio, were managed on behalf of investors.

Following difficult economic conditions and varied investor sentiment in 2008–09, DHA focussed its efforts during the reporting period on developing its sales and leasing programs. This action ensured sufficient demand was generated, particularly for properties sold under the individual Sale and Leaseback (SLB) program, and for renewal of expiring leases.

DHA also sought expressions of interest from institutional and wholesale investors during the reporting period, with a view to creating a secondary sales channel.

DHA Lease Agreement

DHA's Lease Agreement is about more than just bricks and mortar. In a unique arrangement, where DHA is both the tenant and property manager, lessors gain peace of mind knowing that their rental income is assured and their property will be maintained to a high standard for the duration of the lease.

In 2009–10, DHA introduced a new edition of its Lease Agreement to improve readability, clarify DHA and lessor responsibilities, separate 'lease' and 'service' components, and maximise consistency with state and territory *Residential Tenancy Acts*.

Key features of the Lease Agreement are:

- a long-term lease (typically between six and 12 years)
- rent payable from the commencement date until the end of the lease, and
- no loss of rent when Defence tenants change, including no advertising or re-letting costs.

For a single fee, deducted monthly, lessors also benefit from the following DHA Property Care services⁴:

- expert property management, including periodic inspections, itemised monthly statements and an optional bill paying service
- day-to-day maintenance, including the repair and replacement of fixed appliances as required
- annual rent reviews to market valuation, and
- restoration to ensure the property is returned in good order (subject to fair wear and tear), including repainting and recarpeting at lease end (depending on the lease term).

⁴ Note: While DHA Property Care services are distinct from the tenancy provisions of the DHA Lease Agreement, they are linked so that neither component can operate in isolation.

Sale and Leaseback program

Each year DHA sells properties to investors under a leaseback arrangement. These properties have been built or acquired by DHA in locations where housing is required for ADF members. They meet Defence requirements in terms of size, amenity and inclusions.

In 2009–10, DHA refreshed the value proposition with a marketing focus on income security, value, yields and transparency, in addition to the standard features and benefits of the SLB product. DHA also sought expert opinion to support its claims: Atchison Consultants and Rismark International provided comprehensive analysis of residential property as an asset class, and Access Economics compared DHA's management fee structure to alternative investments, finding DHA to be extremely competitive.

During the reporting period, DHA's sales activity primarily focused on private investors. DHA capitalised on realised improvement in buyer sentiment, achieving strong sales orders. A total of 681 settlements were achieved generating \$327.6 million in revenue; \$52.6 million above the original budgeted figure. Lessors who purchased a DHA property during the reporting period were presented with the new Lessor Handbook in recognition of their investment.

In 2009–10, in consultation with investment advisors, Grant Samuel, DHA focussed efforts on establishing a secondary sales channel. Through an Expression of Interest (EOI) process, DHA achieved a significant response from institutional and wholesale investors to purchase and leaseback portfolios of its property holdings. Negotiations are progressing with a view to formalising arrangements in 2010–11.

Private leasing programs

To maintain supply and minimise capital expenditure, DHA continued to focus on increasing the number of lease renewals. This is where a new Lease Agreement is negotiated with a lessor, before the current lease expires. Lease renewals are negotiated on properties that DHA wishes to retain in the portfolio. During the reporting period, 508 leases were renewed; an outstanding achievement, 20% above the original target.

To ensure DHA has the flexibility required to minimise disruption to its Defence tenants, the Lease Agreement provides DHA with rights to vary agreements, by extending or reducing the term. The majority of agreements include a variable extension period (previously referred to as an option) of up to 36 months which is exercised at DHA's discretion. During the reporting period, DHA extended the terms of 844 leases.

In addition, to meet its housing obligation, each year DHA leases properties directly from private owners in selected locations. Properties must meet Defence requirements in terms of location, size, amenity and inclusions, which may include items not considered standard in some locations. During the reporting period 149 properties were leased directly from private owners.

Lessor satisfaction

Satisfaction with DHA's ongoing management of leased properties is measured by an annual lessor survey conducted by DHA. The results of this survey aid in improving lessor relations and product development.

Since surveying began in 2004, satisfaction with overall property management has consistently been above the target of 90% (nationally). In 2009–10, this trend continued with 95% of the 1,458 respondents reporting satisfaction. In addition, 92% of 1,431 respondents indicated satisfaction with DHA's maintenance service. However, satisfaction with value-for-money of the DHA Property Care fee and feedback from annual property inspections fell slightly below the target (89% of 1,456 and 86% of 1,438 respectively).

Of those surveyed, 61% of respondents (894) indicated they had contacted DHA within the preceding 12 months. Satisfaction with DHA staff courtesy/helpfulness and accessibility were similar to results achieved in 2008–09 (94% of 881 and 92% of 882 compared to 95% of 911 and 92% of 909 respectively). Satisfaction with staff knowledge (92% of 867) was slightly lower than that achieved in 2008–09, but still above target. Satisfaction with staff timeliness of response (85% of 880) was lower than that achieved in previous years. When the sample sizes and distributions of responses were taken into account, there were statistically significant differences for all customer service aspects between the national results and a number of regions.

In 2009–10 there was a decrease in satisfaction with the annual rent revaluation compared to 2008–09. Respondents in 2008–09 (94%) were 2.32 times more likely to be satisfied with the process of the revaluation than in 2010 (87%). Respondents were also 2.28 times more likely to be more satisfied with the outcome of the revaluation in 2009 (90%) when compared to 2010 (79%). As demonstrated in other results, when the sample sizes and distributions of responses were taken into account, there were statistically significant differences between the national results and those in a number of regions.

In 2009–10, respondents were less likely to recommend investing in a DHA property than they were in 2008–09 (92% of 1,453 compared to 95% of 1,457). Similarly, respondents were less likely to lease another DHA property or negotiate a new lease with DHA once their current lease expired (73% of 1,446 compared to 78% of 1,451 and 84% of 1,440 compared to 87% of 1,435 respectively). Despite this result, as noted previously, DHA exceeded its target in renewing expiring leases during the reporting period.

Promotion of leasing programs

Websites

DHA websites provide information on its sales and leasing programs as follows:

invest.dha.gov.au

This website is dedicated to the promotion of the individual sale and leaseback program (SLB). It outlines leasing arrangements and provides a description, photographs, floor plan and location map for each property listed for sale. In 2009–10, prospective investors were able to visit this website and view properties for sale a week before their release date, aiding their decision making process. Prospective investors can also use this website to access a number of tools and additional information resources and register to receive newsletters and other promotional material from DHA via email.

www.dha.gov.au

DHA's core website has a dedicated section for private investors to source information about its leasing programs. It provides information about private leasing arrangements and includes a list of current requirements by region. Private owners can offer their property to DHA by completing and submitting an online application. Information about the individual SLB program is provided, with a link to invest.dha.gov.au.

Advertising and media

Most of DHA's advertising and media activity in 2009–10 focussed on promotion of the individual SLB program. Despite significant investor demand during the reporting period, DHA undertook a targeted advertising campaign to maintain brand awareness and ensure sufficient future demand.

Testimonial and case study advertising of investors' experiences continued to be a key tool used in promoting the individual SLB program. Mainstream media, including press, radio and online advertising, were the most common channels used.

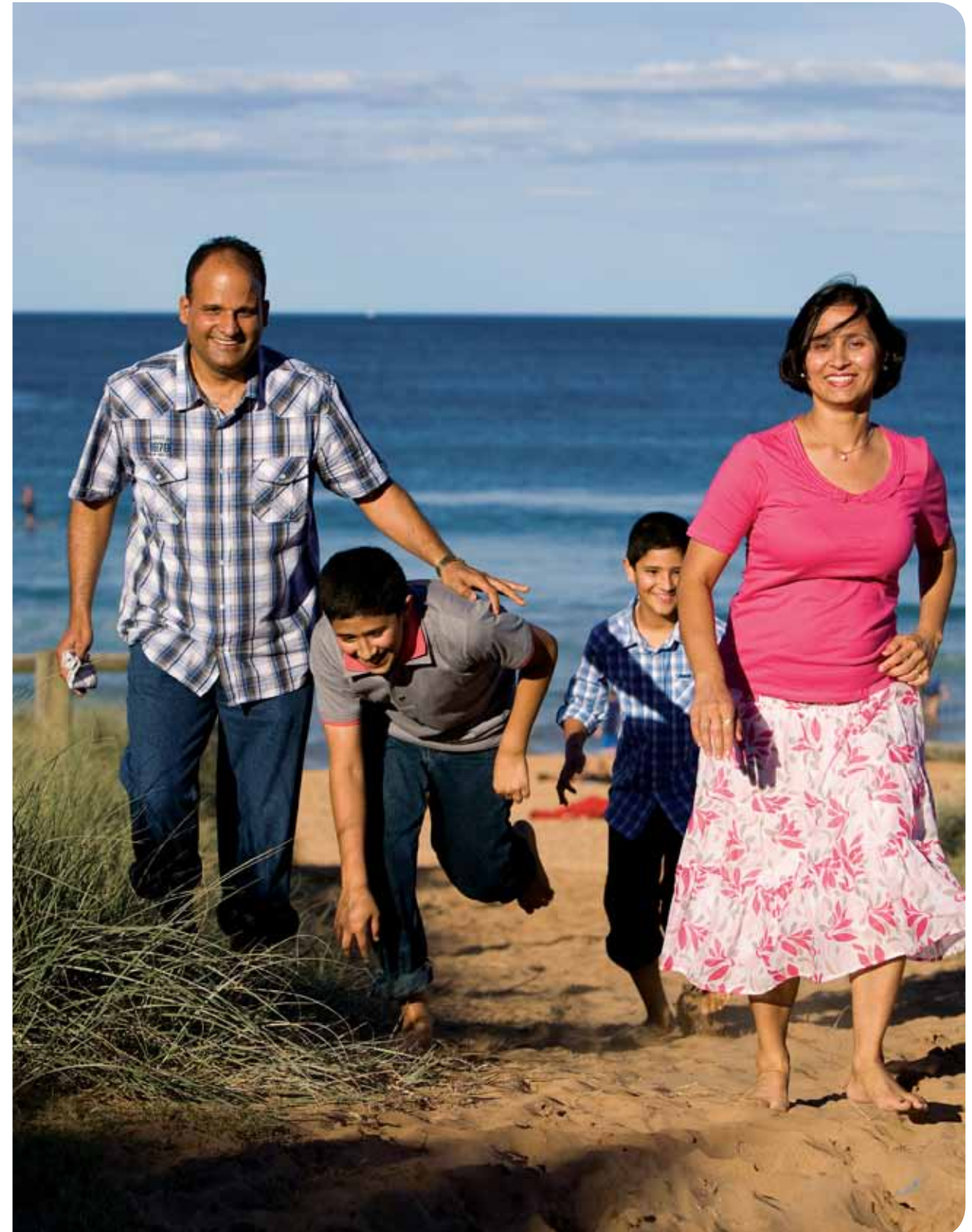
The individual SLB product also received considerable media attention throughout the reporting period, as the security of DHA's lease terms continued to be recognised in comparison to other investments. Publications covering the program included *Money* and *Your Investment Property* magazines and the *Sunday Age* (Domain feature article).

Targeted advertising was undertaken to attract private owners to lease their property to DHA in locations where it was needed. Online advertising was the channel most utilised for this purpose, supplemented with a small amount of print advertising.

A print advertising campaign was also implemented to promote the EOI for institutional and wholesale purchase and leaseback of sizeable portfolios of DHA property holdings. This was complemented by an *Australian Financial Review* editorial highlighting the DHA investment opportunity.

Investment seminars

During 2009–10, DHA continued to host investment seminars for prospective private investors in most capital cities and many regional centres throughout Australia. The sessions provided an overview of DHA; residential property as an asset class; how the individual SLB program works; the benefits of the DHA Lease Agreement; and how to buy. Highlights of the new seminar presentation were a virtual tour of a DHA property and video testimonials from lessors. Attendees were able to ask questions of DHA sales consultants and staff, and were provided a comprehensive information pack, including analysis from Atchison Consultants and Access Economics.





Meeting shareholder requirements

Objective

Major outcome

Objective

Healthy long-term financial structure.

KEY PERFORMANCE INDICATOR	2009–10 TARGET	2009–10 ACHIEVEMENT
Return on Equity	5.9%	7.3%
Earnings Before Interest and Tax (EBIT)	\$113.1 million	\$125.7 million
Profit Before Tax (PBT)	\$88.1 million	\$113.7 million
Net Operating Surplus after Income Tax	\$70.3 million	\$87.8 million
Debt : Equity Ratio	57%	56%
Percentage of DHA Ownership	22.4%	21.1%
Ordinary Dividend	\$42.2 million	\$52.7 million

Major outcome

1. The full-year return on equity, earnings before interest and tax, profit before tax, net operating surplus after income tax and annual dividends all exceeded targets, thereby meeting shareholder requirements.

Overview

DHA's net operating surplus after income tax for 2009–10 was \$87.8 million against a target of \$70.3 million. This result compared with a net operating surplus after income tax of \$78.9 million in 2008–09.

DHA's operating result was underpinned by housing services revenues, the sale of surplus investment properties and the sale and leaseback of inventory properties. Total housing services revenue was \$510.8 million, compared with \$467.5 million in 2008–09. Gearing was 35.4% compared with 36.9% in 2008–09 with interest cover at 4.8 times. DHA operates under Australian-equivalent International Financial Reporting Standards (AeIFRS) which allows for the effective comparison of financial performance between 2009–10 and 2008–09.

Operating results

DHA's income totalled \$952.3 million in 2009–10 compared with \$863.3 million in 2008–09 following improved property sales performance and increased housing services revenue.

Expenses in 2009–10 totalled \$838.7 million, compared with \$770.9 million in 2008–09. The increased expenditure was a result of a number of factors including higher property rental expenses and increased sales of properties.

Under AeIFRS, inventories are held at the lower of cost and net realisable value and investment properties are held at the lower of cost and fair value. Both property groups are assessed on an individual asset basis rather than by class. DHA's inventory and investment properties and land holdings were reviewed by licensed property valuers at year end. The DHA Board agreed with the assessment of 'fair value' and consequently impaired the carrying values of inventory and investment properties by \$3.9 million. The write-down in 2008–09 of inventory and investment properties totalled \$22.5 million (including a write-down of land at Yamanto Ipswich of \$7.8 million).

Rental outlays to lessors for residential properties increased by \$28.6 million or 11.9%. Rental outlays increased for three reasons:

- 1) a general increase in assessed rent
- 2) improvement in the quality of housing stock, and
- 3) additional number of leases.

DHA's administrative costs decreased year on year. Employee expenses (including discontinued operations) increased by \$2.3 million, or 4.3%.

Returns to shareholders

DHA fully complies with the *Income Tax Assessment Act*, Commonwealth Fringe Benefits Tax and the Goods and Services Tax legislation. DHA is also required to comply with the Australian Government's competitive neutrality policy which ensures that DHA is not able to enjoy a commercial advantage resulting from tax exemptions flowing from its status as a Government Business Enterprise. In accordance with this policy, DHA makes State Tax Equivalent payments to the Australian Government in respect of applicable State taxes.

Total dividends and State tax equivalent payments attributable to the 2009–10 operating result amounted to \$78.7 million, an increase of \$9.1 million or 13.1% over the 2008–09 result. This comprises of an ordinary dividend of \$52.7 million, an increase of \$5.4 million, and State tax equivalents totalling \$26.0 million, an increase of \$3.7 million.

Sale of surplus housing

An important element of DHA's asset and portfolio management strategy is the sale of surplus properties. In 2009–10, \$40.9 million in revenue was generated from this source. Surplus housing stock is identified on the basis that it no longer meets the operational requirements of Defence, is positioned in an unsuitable location, or does not meet the Defence minimum amenity standards.

Residential investment markets

DHA's financial performance is reliant on land development, construction, property sales and property portfolio management. All four areas are dependent on the state of residential property markets across Australia. During the 2009–10 financial year, residential property markets in Darwin and Melbourne were the best performing, with Brisbane the slowest.

DHA stock

DHA managed a portfolio of 18,058 properties across Australia as at 30 June 2010. The total 'fair value' of these assets was approximately \$8.6 billion with properties owned by DHA valued at \$2.1 billion. Off-base property ownership was 21.1% at year end against a Corporate Plan target of 22.3%. Off-base properties include DHA investment properties (16.5%) and DHA inventory properties (4.6%).

Capital structure

DHA continues to focus on maintaining the attractiveness of the Sale and Leaseback program to individual investors. The overall sales objective is to achieve sufficient revenues from the sale and leaseback of inventory properties to ensure there is no build up of DHA inventory holdings and that net cash from operating activities remains positive over the cycle.

DHA has \$1,291 million in equity comprising \$887.0 million in accumulated profits, and \$404.0 million in contributed equity (which includes \$161 million in NB-ESP funds). DHA's dividend policy is to pay 60% of net operating surplus after income tax to shareholders as dividends.

DHA has loan arrangements through the Department of Finance and Deregulation and the Department of Defence. DHA does not have a commercial overdraft or access to re-drawable loan facilities. New borrowings in 2009–10 totalled \$40.5 million. Borrowings outstanding totalled \$465.5 million as at 30 June 2010 leaving \$169.1 million in undrawn funds, including \$44.1 million of Nation Building – Economic Stimulus Plan funding.

Standard & Poor's credit rating

Standard & Poor's credit rating of DHA continues to be a stand-alone rating of AA+. The credit rating assists DHA when negotiating financial transactions with the Department of Finance and Deregulation.

Table 5: Financial summary

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Earnings Before Interest and Tax ⁽¹⁾	\$81.2m	\$74.2m	\$82.3m	\$110.3m	\$108.7m	\$99.1m	\$113.7m	\$125.7m
Annual Dividends	\$33.1m	\$28.4m	\$27.0m	\$39.9m	\$36.5m	\$44.3m	\$47.3m	\$52.7m
State Tax Equivalents ^(1,2)	\$3.2m	\$23.7m	\$23.0m	\$25.4m	\$26.4m	\$31.3m	\$22.3m	\$26.0m
Income Tax Expense ⁽³⁾	\$25.9m	\$19.0m	\$17.1m	\$11.5m	\$15.6m	\$10.4m	\$13.4m	\$25.9m
Total Managed Stock	17,311	16,756	16,824	16,875	17,005	17,393	17,365	18,058
Acquisitions	539	489	451	460	482	421	130	165
Constructions	420	620	520	510	508	658	524	965
Sale of Surplus Stock	573	468	412	327	241	165	185	124
Revenue – Disposal of Surplus Stock	\$136.0m	\$111.4m	\$109.3m	\$69.2m	\$68.4m	\$42.0m	\$78.9m	\$40.9m
Revenue – Sale and Leaseback	\$338.3m	\$322.7m	\$246.9m	\$353.6m	\$315.7m	\$265.1m	\$277.9m	\$327.6m
Contracted Maintenance to DHA Houses	\$33.6m	\$32.3m	\$29.5m	\$32.0m	\$33.6m	\$30.8m	\$40.3m	\$44.2m

Notes:

1. Prior to 2007–08 the State Tax Equivalent payments were reported below EBIT.
2. State Tax Equivalents includes Payroll Tax, and from 2003–04 onwards Land Tax and Stamp Duty.
3. Prior to 2007–08 Income Tax was paid as an equivalent dividend. DHA became an ATO Tax Entity on 1 July 2007.



A governance culture

- Overview
- Board members
- DHA Executive

Overview

DHA was established as a statutory authority in 1988 to provide housing and related services to ADF members and their families in support of Defence operational, recruitment and retention goals. In 1992 DHA became a Government Business Enterprise, established to undertake business activities on behalf of the government. DHA performs its functions in accordance with the policies of the Australian Government and sound commercial practice.

DHA operates within a governance framework intended to produce accountable business outcomes and sound organisational performance. This framework derives primarily from the:

- *Defence Housing Australia Act 1987*, and
- *Commonwealth Authorities and Companies Act 1997*

The framework is consistent with the Governance Arrangements for Commonwealth Government Business Enterprises.

Defence Housing Australia Act 1987

Under the *Defence Housing Australia Act 1987 (DHA Act)*, formerly known as the *Defence Housing Authority Act 1987*, DHA's main function is to provide adequate and suitable housing and relocation services for, and housing related services to, members of the ADF and their families, to meet the operational needs of the ADF and the requirements of Defence.

Under the *DHA Act*, DHA also has the functions of:

- providing adequate and suitable housing for, and housing-related services to, officers and employees of *Financial Management and Accountability Act 1997 (FMA Act)* agencies, other than Defence, and their families and persons contracted to provide goods or services to FMA Act agencies, other than Defence, and their families, and
- providing services ancillary to the services mentioned above.

DHA may perform these additional functions only to the extent mentioned in a Ministerial determination.

On 9 November 2006, the then Minister for Defence, the Hon. Dr Brendan Nelson MP, made the *Defence Housing (Performance of Additional Functions) Determination 2006* which permitted DHA to provide housing and housing-related services to any FMA Act agency, other than Defence, and their families.

Ministerial direction

During 2009–10 one direction was issued. The direction related to uniform residence agreements between DHA and Defence personnel.

Commonwealth Authorities and Companies Act 1997

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

- reporting to Ministers and Parliament
- 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.

The following general policies of the Australian Government were notified to DHA by the responsible Minister before the commencement of the financial year and remain in force:

- *National Code of Practice for the Construction Industry*, and
- *Foreign Exchange Risk Management Policy*.

CAC Act compliance

DHA reports annually on its compliance with the provisions of the *CAC Act*, including on DHA's financial sustainability, to its Shareholder Ministers.

Under section 12 of the *Commonwealth Authorities and Companies (Report of Operations) Orders 2008*, DHA is also required to provide particulars of Ministerial directions issued under the *DHA Act* or other legislation and of general policies of the Australian Government notified by the responsible Minister under section 28 of the *CAC Act*:

- during the financial year
- since the end of the financial year, and
- continuing from previous financial years.

Where DHA has not fully complied with a direction or general policy during the financial year, the report is required to include an explanation of the extent of, and reasons for, the non-compliance.

During 2009–10 there were no instances of non-compliance with a general policy of the Australian Government under section 28 of the *CAC Act*.

Shareholder Ministers

Within the Australian Government, the Hon. John Faulkner, Minister for Defence had portfolio responsibility for DHA. Under a dual shareholder model, overall responsibility was shared with the Hon. Lindsay Tanner MP, Minister for Finance and Deregulation.

DHA provides quarterly reports to its Shareholder Ministers which detail progress year-to-date in delivering the Corporate Plan. DHA regularly liaises with Shareholder Ministers' Departments on key issues.

Responsibility for operational matters affecting DHA has been delegated to the Minister for Defence Personnel, the Hon. Alan Griffin MP. The Hon. Greg Combet AM, MP had responsibility for operational matters until 1 April 2010.

DHA Board

The Board is accountable for DHA's overall performance. It makes decisions on DHA's direction and strategies through a three-year Corporate Plan which is reviewed and submitted annually to the Shareholder Ministers.

The Board receives regular reports on financial and other performance indicators against Corporate Plan targets. The Board also receives information on strategic issues as required.

The DHA Board comprises nine directors:

- a Chairman appointed by the Shareholder Ministers, and four directors with expertise in residential property, real estate, building, social planning or finance
- three directors nominated respectively by the Chief of the Defence Force and the Secretaries of the Departments of Defence and Finance and Deregulation, and
- the Managing Director of DHA (also the Chief Executive Officer) appointed by the Board, who is the only Executive Director.

At the end of 2009–10, there was one director position vacant.

During 2009–10 the DHA Board met six times. These meetings were held in Canberra. In addition, the members of the Board visited the Hunter region in May 2010 for briefings and a tour of key DHA development housing sites.

Board committees

Three Board committees assist the Board in the discharge of its responsibilities – Audit Committee, Property Committee and Nomination and Remuneration Committee. In addition, amendments to the *DHA Act* in 2006 established the DHA Advisory Committee to advise DHA on the performance of its functions.

Board Audit Committee

The Board Audit Committee meets at least quarterly and reports to the Board on its activities at least twice a year. During 2009–10, four meetings of the Committee were held.

The key functions of the Board Audit Committee are to:

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

Property Committee

The Property Committee meets at least quarterly and on an ad-hoc basis as required. During 2009–10, it met 12 times to provide advice on an increased construction schedule. The Committee acts in an advisory capacity to the Board on major property transactions.

The key functions of the Property Committee are to:

- review management proposals in relation to major property transactions
- review Board submissions to ensure that they contain all necessary information for the Board to make fully informed decisions, and
- assist in developing a standard format for Board reporting.

The Committee also reviews management proposals relating to:

- land purchases or disposals that require Board approval
- property projects that are environmentally or politically sensitive or carry a high-level of risk, and
- any other property project, if requested to do so by the Board or management.

Nomination and Remuneration Committee

During 2009–10, the Nomination and Remuneration Committee met three times. The key functions of the Nomination and Remuneration Committee are to:

- advise Ministers on the skills and experience necessary for new directors
- oversee and provide advice to the Managing Director on executive remuneration and overall remuneration strategies
- assist the Board in relation to the review of the Managing Director's performance and remuneration, and
- ensure the provision of appropriate induction and continuing education programs for directors.

DHA Advisory Committee

During 2009–10, the DHA Advisory Committee met three times. The key function of the Committee is to give advice and information to DHA on the performance of DHA's functions. The Committee comprises:

- one Board member (who is the Chairman of the Committee)
- three members appointed by the Service Chiefs
- the National Convenor of Defence Families Australia, and
- a further representative of DHA.

Performance reporting

In accordance with the *CAC Act* and the *Public Service Act 1999*, DHA prepares a Corporate Plan, an Annual Report and a Statement of Corporate Intent.

Corporate Plan

DHA's three year Corporate Plan sets the strategic direction of DHA and is reviewed on an annual basis. To achieve DHA's mission and fulfil the outcomes desired by the Shareholder Ministers, DHA has set five objectives within the four balanced scorecard perspectives of: financial performance, customer satisfaction, internal business processes and learning and growth. The Corporate Plan is approved by the DHA Board and provided to DHA's Shareholder Ministers.

Each business unit develops a business plan which incorporates all responsibilities from the Corporate Plan together with additional activities and measures linked to the budget relevant to that business unit.

Each staff member has an individual Performance Development Agreement, developed by cascading business objectives from the business unit plans. This process clarifies how corporate objectives translate to what the staff member needs to achieve and identifies any support that may be required.

Annual Report

The Annual Report sets out DHA's performance in delivering the objectives and strategies 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 *CAC Act* and the *Public Service Act 1999*.

Board performance

The DHA Board has agreed that there should be regular reviews of its performance and processes. The assessment also provides an 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 Charter.

Board members

MS MARGARET WALKER

MR DEREK VOLKER

THE HON. J.A.L.
(SANDY) MACDONALD

MS CAROL HOLLEY

MR GARY BECK

MR PETER SHARP

MR MICHAEL DEL GIGANTE

MR GARY POTTS



ABSENT: MR WILLIAM BOWNESS

Board members

MR DEREK VOLKER AO

Chairman of the DHA Board

Mr Volker was appointed Chairman of the DHA Board on 26 July 2008. He is also Chairman of the Nomination and Remuneration Committee and Chairman of the Property Committee.

Mr Volker headed three Commonwealth Departments over the 15 year period to 1996 – Veterans Affairs, Social Security, and Employment, Education and Training. From 1996 to 2004 he was Chairman of the Government Relations Group in the national law firm Corrs Chambers Westgarth and he has been a company director and consultant to several major Australian and international companies. For the ACT Government he has held the positions of Chair of the ACT Business Incentives Scheme Panel, Chair of ACT Tourism, Chair of the Education Export Council, Chairman of the ACT Skills Commission and Chairman of the City West Precinct Committee. He is the Chairman of the OzHelp Foundation Ltd.

MR MICHAEL DEL GIGANTE BCom (Hons), MCom, MBA, FCPA, FICD

Managing Director

Mr Del Gigante was appointed Managing Director of DHA in August 2006.

Mr Del Gigante joined DHA as Chief Operating Officer in April 2004 and was appointed Managing Director in August 2006. Before joining DHA, he was Chief Executive Officer of TransACT Communications. 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 held executive positions in Verizon (previously GTE), a large US telecommunications company, both in Europe and the United States. He is also a member of the Advisory Board of the Royal Australian Mint.

AVM GARY BECK (Rtd) AO GAICD

AVM Beck (Rtd) was appointed to the DHA Board on 23 November 2006 following his nomination by the Chief of the Defence Force, and was reappointed from 23 November 2009. He is the Chairman of the DHA Advisory Committee.

Gary Beck is the Policy Manager, Canberra Business Council. He is a member of the ACT Council of Save the Children Australia, and is patron of Tandem, an organisation providing respite to carers of the handicapped in the ACT. He concluded eight years with the Department of Veterans' Affairs in a statutory appointment as Director of War Graves and earlier concluded a 38-year career in the RAAF, with his final posting as Commandant Australian Defence Force Academy. His two prior senior Defence appointments were Air Commander Australia and Chief of Air Force Personnel.

MR WILLIAM BOWNESS BCom, FCPA, FAPI, FAICD

Mr Bowness was appointed to the DHA Board in April 2006, reappointed on 23 November 2006 and reappointed again on 23 May 2009 for a three-month period. He was a member of the Nomination and Remuneration Committee and the Property Committee. Mr Bowness's term on the DHA Board ended on 21 August 2009.

Mr Bowness was the founder, Chairman and Chief Executive Officer of Melbourne-based property developer Wilbow Corporation Pty Ltd. The company was established in 1976 and subsequently opened branch offices in Brisbane, Dallas, and Auckland. Wilbow Corporation was sold to a major public company in late 2006. 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. In 2007, Mr Bowness was appointed a Director of Melbourne Affordable Housing Ltd, and was made a member of the Australian Grand Prix Corporation.

MR GARY POTTS BEc (Hons), MSc

Mr Potts was appointed to the DHA Board on 23 November 2006 and reappointed from 23 November 2009. He is Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee.

Mr Potts has more than 30 years experience in public policy and government operations. Until recently, he was a Commissioner of the Productivity Commission. He is Chairman of the Australian subsidiary of a foreign-owned general insurance company. Prior to leaving the Australian Public Service in 2002, Mr Potts was an Executive Director and Deputy Secretary in the Australian Department of the Treasury.

MR PETER SHARP

Mr Sharp was appointed to the DHA Board on 23 November 2006 and reappointed from 23 November 2009. He is a member of the Audit and Property Committees.

Mr Sharp has over 45 years experience in the Australian Army and in the Department of Defence. His Army career spanned tours of duty in Vietnam, Malaysia and the United Kingdom. In the Department of Defence, he held senior positions as Inspector General, Head Defence Corporate Support and First Assistant Secretary Personnel. In 2002, he led the Defence Strategic Workforce Planning Review, the first of its type in the Commonwealth. Mr Sharp is the Defence representative on the Australian Bravery Decorations Council.

THE HON. J.A.L. (SANDY) MACDONALD LLB (Sydney)

Mr Macdonald was appointed to the DHA Board in August 2008 and is a member of the Audit and Property Committees.

Mr Macdonald was elected to the Senate in 1993 and retired from the Parliament on 30 June 2008. During his parliamentary career he was Deputy Leader of the Nationals in the Senate, Parliamentary Secretary for Trade and Parliamentary Secretary for Defence. His committee experience was broad, but with particular reference to defence, international affairs and security. He served for eight years as the Chair of the Senate Foreign Affairs, Defence and Trade Committee. He is also a non-executive director of Incremental Oil & Gas Ltd. He lives near Quirindi, New South Wales where he is a wool and beef producer.

MS MARGARET WALKER, BCom, GAICD

Ms Walker was appointed to the DHA Board on 15 July 2009 and is a member of the Audit and Nomination and Remuneration Committees.

Concurrently, Ms Walker is a non-executive Director of Cystic Fibrosis Queensland and Cystic Fibrosis Australia. She holds a Bachelor of Commerce and is a member of the Australian Institute of Company Directors and Women on Boards. Ms Walker has over 15 years senior executive experience with a variety of organisations, including 10 years in strategic roles as Executive Director and Director Operations of Tactical Global Management (TGM), a pre-eminent global macro hedge fund firm with offices in Brisbane and London and US\$1.2b funds under management.

MS CAROL HOLLEY, BA

Ms Holley was appointed to the DHA Board on 23 November 2009.

Ms Holley's current Board appointments include Non-Executive Director and Chair of the Audit Committee of Australian Pharmaceutical Industries Limited, Non-Executive Director and Chair of the Audit Committee of Job Futures Limited and Independent Member of the Audit Committee of Sinclair Knight Merz. In addition, Ms Holley is the Independent Chair of the Risk Management and Audit Committees of Housing NSW, the NSW Department of Planning and NSW Police Force. Ms Holley was a Partner of Hill Rogers, Chartered Accountants, for 25 years, and holds a Bachelor of Arts from the University of Sydney, is a Chartered Accountant, a Fellow of the Australian Institute of Company Directors and a Registered Company Auditor, and Registered Tax Agent.

Table 6: Meetings attended by DHA Board members

(number attended/number held while a board or committee member)

	BOARD	BOARD AUDIT COMMITTEE	BOARD PROPERTY COMMITTEE	BOARD NOMINATION & REMUNERATION COMMITTEE
No. of times board/committee met during 2009–10.	6	4	12	3
Mr Derek Volker AO, Chairman	6/6		12/12	3/3
Mr Michael Del Gigante, MD	6/6			
AVM Gary Beck AO (Rtd)	6/6			
The Hon. J.A.L. (Sandy) Macdonald	6/6	4/4	12/12	
Mr Gary Potts	6/6	4/4		3/3
Mr William Bowness	1/1*		2/2*	1/1*
Mr Peter Sharp	6/6	4/4	12/12	
Ms Margaret Walker	6/6**	4/4**		2/2**
Ms Carol Holley	4/4***			

* Mr Bowness's term expired on 21 August 2009.

** Ms Walker was appointed to the Board on 15 July 2009.

*** Ms Holley was appointed to the Board on 23 November 2009.

DHA stakeholders chart

FEDERAL MINISTERS WITH RESPONSIBILITY FOR DHA



Senator the Hon. John Faulkner,
Minister for Defence



The Hon. Lindsay Tanner MP,
Minister for Finance and Deregulation



The Hon. Alan Griffin MP,
Minister for Defence Personnel

BOARD OF DIRECTORS

DHA DELIVERS TO:

The Department of Defence and members of the Australian Defence Force.

Australian Customs and Border Protection Service staff.

Individual and Institutional lessors.

Defence Stakeholder organisations:
Defence Families Australia, Defence Community Organisation and Defence Special Needs Support Group.

Housing and relocation services:

1. Housing to meet the needs of our customers through construction, acquisition and leasing
2. Relocation services
3. Maintenance services
4. Tenancy management

Quality housing through:

1. Sale and Leaseback Program
2. Direct Leasing
3. Lease management and investor relations.

1. Support for stakeholder activities
2. Stakeholder relations

DHA Executive

SHANE NIELSEN
GENERAL MANAGER
BUSINESS SOLUTIONS AND
TECHNOLOGY DELIVERY
CHIEF INFORMATION OFFICER

ROBERT GROOM
CHIEF FINANCIAL OFFICER

STEVE PEDDLE
GENERAL MANAGER
OPERATIONS SERVICE DELIVERY

TRACY MUDDLE
GENERAL MANAGER
PEOPLE AND CORPORATE AFFAIRS

MICHAEL DEL GIGANTE
MANAGING DIRECTOR

PETER HOWMAN
CHIEF OPERATING OFFICER

TONY WINTERBOTTOM
GENERAL MANAGER
SALES AND MARKETING



ABSENT: VERN GALLAGHER -
GM CLIENT RELATIONS

DHA Executive

MR PETER HOWMAN

Chief Operating Officer

Educational qualifications:

- Master of Business Administration
- Graduate Diploma in Computer Science
- Graduate Diploma of Business

Key responsibilities include:

- Capital portfolio planning
- Land and housing supply management
- Client relations, complaint resolution and performance management, and
- Board Committees and Board reporting.

The Chief Operating Officer works closely with the Managing Director and contributes to the overall strategic direction setting and management of the organisation. The Division of the Chief Operating Officer delivers strategic direction for the organisation in relation to land and housing supply including acquisitions, construction, leasing and upgrades. The Chief Operating Officer also ensures accurate reporting to other government agencies particularly in relation to Defence housing progress as part of the Nation Building – Economic Stimulus Plan (NB-ESP).

MR TONY WINTERBOTTOM

General Manager,
Sales and Marketing

Memberships:

- Certified Practising Marketer
- Associate Member of the Australian Marketing Institute

Key responsibilities include:

- Portfolio management
- Sale and Leaseback programs
- Marketing communication
- Events, media and public relations
- Product marketing and advertising
- Lessor relations and leasing programs, and
- New product and market development.

The Sales and Marketing division has primary responsibility for the achievement of corporate objectives that relate to portfolio asset management, property sales, leasing, marketing, communications and media and public relations. The General Manager of Sales and Marketing ensures that sale and leaseback targets are correctly forecasted and sustainably achieved to deliver consistent funding for both day-to-day operations and provisioning. This division also assures that DHA's brand and public relations are managed in line with agreed strategies.

MR ROBERT GROOM

Chief Financial Officer

Educational qualifications:

- Certified Practising Accountant
- Master of Accounting
- Bachelor of Commerce

Key responsibilities include:

- Treasury and risk
- Investment management
- Financial accounting and tax
- Business planning and analysis
- Financial systems and solutions, and
- Corporate planning and transaction services.

The Finance Division is responsible for financial services across the organisation. This includes investment management, forecasting and modelling as well as performance reporting and evaluation. The role of the Chief Financial Officer is to ensure responsible fiscal management and planning, to maintain sound corporate governance and to ensure effective risk management for the organisation.

MR STEVE PEDDLE

General Manager,
Operations Service Delivery

Key responsibilities include:

- Lead and direct DHA's field operations and manage the Service Delivery business lines, including Property and Tenancy Management and Relocations,
- Delivery of high standards of customer service relating to property management, tenancy management, and the relocation of ADF Members, and
- Establish and monitor a range of financial objectives to ensure the commercial viability of DHA's Operations Service Delivery business lines.

The General Manager, Operations Service Delivery contributes strategically to DHA's objectives and is responsible for delivering services with a strong commercial focus. The Operations and Service Delivery division also has responsibility for reporting to the Department of Defence against Service Agreements including the monitoring and reporting of contractual Key Performance Indicators (KPIs), and liaises extensively with senior staff at the Department of Defence regarding operational issues.

MS TRACY MUDDLE

General Manager,
Corporate Affairs

Educational qualifications:

- Company Directors Course Diploma
- Master of Business Administration
- Bachelor of Management, Professional Studies
- Graduate Certificate in Management
- Diploma of Applied Science

Key responsibilities include:

- Internal audit
- Company Secretary and Board support
- People and corporate resources
- Legal Counsel, and
- Corporate services.

The General Manager, Corporate Affairs provides strategic direction in relation to effective people management as well as identifying organisational development opportunities. The Corporate Affairs Division is responsible for providing core support functions to DHA including human resources, learning and development, corporate support, legal counsel, board secretariat, internal audit and corporate governance. The division delivers facilities management with approximately 30 office leases, protective security, records management, procurement and national contract management including a fleet of 170 vehicles.

MR SHANE NIELSEN

General Manager,
Business Solutions
and Technology
Chief Information Officer

Educational qualifications:

- Bachelor of Applied Science (Computing Science)

Key responsibilities include:

- Information Communications and Technology development and delivery, and
- Business Process Management

The General Manager, Business Solutions and Technology is responsible for the delivery of Business as Usual activities and innovation driven initiatives that provide efficiencies to the broader organisation. Business Solutions and Technology are aligned to the business and the changing dynamics and competing priorities of the organisation. The division supports project management, business contract fulfilment, staff development, productivity increases and enhanced customer service. Business Solutions and Technology provide an emphasis on delivering environmentally sustainable Information Communication and Technology (ICT) to the organisation and is responsible for the delivery of infrastructure, telephony and business solutions to the group.

MR VERN GALLAGHER

General Manager,
Client Relations

Educational qualifications:

- Bachelor Science (Physics)

Key responsibilities include:

- Managing, maintaining and enhancing key stakeholders, and
- Contributes to the overall strategic direction of the organisation.

The General Manager, Client Relations is responsible for managing, maintaining and enhancing key stakeholder relationships with a focus on continually finding ways to improve service delivery and create opportunities. The Client Relations division contributes to the overall strategic direction setting of the organisation. He is responsible for research, analysis and the provision of reports to the Board on strategic planning issues and other major initiatives.

Internal and external review

DHA's internal and external review systems are an important part of ensuring internal control systems are effective and that the business is operating in accordance with relevant laws and procedures.

Internal audit

DHA has an outsourced internal audit services model. The services are provided by KPMG which provides objective and independent assurance to the Managing Director, the Executive and the DHA Board Audit Committee that DHA financial and operational controls are operating efficiently, effectively and ethically. Through the Internal Audit Plan, the KPMG internal audit function assists DHA to achieve its objectives by providing a systematic and disciplined approach to evaluating and improving the effectiveness and efficiency of risk and financial management, control and governance processes. The plan promotes better practice and identifies potential risks that could impede DHA's achievement of successful outcomes as well as providing recommendations to improve business performance. The Board Audit Committee monitors the implementation of internal audit recommendations and reports progress to the Board.

Risk management

Enterprise-wide risk management is integral to DHA's business operations. It is reflected in DHA's corporate governance and delivery against core objectives. DHA's risk management is centrally coordinated and relies on regular reviews of business processes and procedures, internal and external audits, as well as various documents such as the Business Continuity Plan, Fraud Policy, Security Plan and Financial Delegations. An Annual Risk Management Plan is prepared based on the methodology set out in the Australian Standard on Risk Management AS/NZS/ISO 31000:2009. It addresses both governance and business risks and is approved by the Board after endorsement by the Board Audit Committee. DHA's Risk Management Policy was formally reviewed and approved by the Board in 2009–10.

Fraud prevention measures

DHA undertakes a regular Fraud Risk Assessment (FRA) consistent with the requirements of the *Commonwealth Fraud Control Guidelines 2002*, the supporting *Better Practice Guide 2004* and in accordance with the Australian Standard on Risk Management AS/NZS/ISO 31000:2009. The FRA is a proactive approach to minimising the potential for instances of fraud within DHA, whether by employees or people external to DHA.

The Fraud Control Plan (FCP) is based on the FRA and summarises DHA's fraud-control strategies. Supporting the FCP is the Fraud Policy. They establish the framework for management and staff on DHA's approach to fraud control. The FCP and Fraud Policy provide guidance to staff on action to take to deter and detect fraud and are available on the DHA intranet. DHA treats fraud seriously and acknowledges the significance of "whistleblowers" in detecting fraud. DHA's Risk Manager provides annual updates to the Board Audit Committee on the effectiveness of internal controls and on efforts to mitigate exposures to fraud. No instances of fraud were recorded during the 2009–10 financial year.

Parliamentary committees and government inquiries

Before starting, public works with an estimated value in excess of \$15 million require consideration by the Parliamentary Standing Committee on Public Works and approval from the House of Representatives. During the year, DHA referred for consideration the Larrakeyah Barracks, Gordon Olive Estate, Muirhead, Voyager Point and Largs North projects. In addition, DHA provides details to the committee in relation to its medium housing works, which are valued between \$2 and \$15 million.

Freedom of information

Like all other Australian Government organisations, DHA is required to comply with the *Freedom of Information Act 1982*. During 2009–10, three requests were made for access to certain information under the Act. Requests under the *Freedom of Information Act 1982* for access to information should be made in writing to:

Freedom of Information Officer
Defence Housing Australia
26 Brisbane Avenue
BARTON ACT 2600

Privacy

DHA takes its custodianship of information on its staff and customers very seriously and adheres to the policies and procedures for information release as detailed in the *Privacy Act 1988* and as overseen by the Office of the Federal Privacy Commissioner.

Ombudsman

During 2009–10, the Commonwealth Ombudsman received a total of 31 approaches concerning DHA, representing a decrease of 28% on the previous period. During the course of the year, a total of 41 approaches were closed out (including carryover from previous years). Ten of these were the subject of investigation. There were no investigations where a finding of administrative deficiency was recorded.

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 Board Audit Committee on a six-monthly basis.

Indemnities and insurance

DHA maintains directors' and officers' liability insurance. The insurance covers DHA officers in respect of legal liabilities (including legal expenses) that a director or officer may be legally obliged to pay in certain circumstances. The policy has some exclusions, such as wilful breach of duty, breach of professional duty and any claim arising out of libel, slander or defamation.

Commonwealth Disability Strategy

In accordance with Commonwealth Disability Strategy DHA ensures that, wherever possible, policies, programs and services are as accessible to people with a disability as they are to every other member of the Australian community.

Access to documents

Copies of the *Defence Housing Australia Act 1987* are available from Canprint Communications or over the counter from Information Victoria bookshop, Print Applied Technology or Service SA Government Legislation Outlet. For contact details, go to www.publications.gov.au/legislation.html. An online version of the DHA Act can be downloaded from the Attorney-General Department's website at comlaw.gov.au. DHA's Annual Report is available free of charge and can be downloaded from DHA's website at www.dha.gov.au. DHA also produces and distributes brochures and other promotional material. Requests for copies of DHA publications can be made to:

National Manager Marketing Communications
Defence Housing Australia
26 Brisbane Avenue
BARTON ACT 2600
Telephone: 139 DHA
Email: communications@dha.gov.au



Financial Statements

DEFENCE HOUSING AUSTRALIA
FINANCIAL STATEMENTS
For The Year Ended 30 June 2010

- Independent Auditor's Report
- Statement by the Directors, Managing Director and Chief Financial Officer
- Statement of Comprehensive Income
- Balance Sheet
- Cash Flow Statement
- Statement of Changes in Equity
- Schedule of Commitments
- Schedule of Contingencies
- Notes to and forming part of the Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Minister for Defence and Minister for Finance and Deregulation

Scope

I have audited the accompanying financial statements of Defence Housing Australia for the year ended 30 June 2010, which comprise: a Statement by the Directors, Managing Director, and Chief Financial Officer; Statement of Comprehensive Income; Balance Sheet; Cash Flow Statement; Statement of Changes in Equity; Schedule of Commitments; Schedule of Contingencies and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Board of Directors Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit.

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

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

accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Auditor's Opinion

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

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Defence Housing Australia's financial position as at 30 June 2010 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Jocelyn Ashford
Executive Director
Delegate of the Auditor-General

Canberra
6 August 2010


DEFENCE HOUSING AUSTRALIA
STATEMENT BY THE DIRECTORS, MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER


In our opinion, the attached Financial Statements for the year ended 30 June 2010 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*, as amended.

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

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


Derek Volker AO
Chairman
5 August 2010


Michael Del Gigante
Managing Director
5 August 2010


Robert Groom
Chief Financial Officer
5 August 2010

DEFENCE HOUSING AUSTRALIA
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

		30 June 2010 \$'000	30 June 2009 \$'000
	Notes		
INCOME			
Revenue			
Housing Services Provided	3	510,827	467,542
Allocation Services Provided	4	8,710	9,750
Sales of Inventories		301,813	257,053
Interest Received	5	17,276	6,064
Total Revenue		838,626	740,409
Gains			
Net Gains From Disposal of Investment Properties	6	30,014	41,238
Other Income		1,101	712
Total Income		869,741	782,359
EXPENSES			
Employee Expenses	7	49,074	45,078
Housing Services Lease Rentals		269,899	241,298
Rates, Repairs and Maintenance	8	109,103	92,713
Depreciation and Amortisation	9	13,582	12,366
Cost of Inventories		272,618	237,738
Finance Costs	10	29,311	27,517
Write-Down and Impairment of Assets	11	3,948	22,496
Other Expenses		17,046	17,642
Total Expenditure		764,581	696,848
Share of Profit or Loss of Associates Accounted for using the Equity Method	39	49	(188)
Profit Before Income Tax on Continuing Operations		105,209	85,323
Income Tax Expense	12	23,370	11,295
Profit After Income Tax on Continuing Operations		81,839	74,028
Discontinued Operations: Post Tax Profit or Loss and Post Tax Gains and/or Losses	13	5,916	4,878
Profit After Income Tax		87,755	78,906
Profit Attributable to the Australian Government		87,755	78,906
Other Comprehensive Income		-	-
Total Comprehensive Income		87,755	78,906

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

**DEFENCE HOUSING AUSTRALIA
BALANCE SHEET**

as at 30 June 2010

	Notes	30 June 2010 \$'000	30 June 2009 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	14	272,222	162,666
Trade and Other Receivables	15	20,725	18,233
Other Current Assets	17	31,716	33,392
Inventories	19	176,817	257,376
		<u>501,480</u>	<u>471,667</u>
Investment Properties for Sale	16	45,365	16,304
Total Current Assets		<u>546,845</u>	<u>487,971</u>
Non-Current Assets			
Deferred Tax Assets	18	30,162	35,966
Inventories	19	301,105	265,192
Plant, Equipment and Intangibles	20	5,985	8,626
Investment Properties	22	966,298	790,560
Finance Lease Receivables	23	141,925	152,541
Other Receivables	15	555	-
Investments Accounted for Using the Equity Method	21	4,776	4,568
Total Non-Current Assets		<u>1,450,806</u>	<u>1,257,453</u>
Total Assets		<u>1,997,651</u>	<u>1,745,424</u>
LIABILITIES			
Current Liabilities			
Trade and Other Payables	24	51,824	44,412
Current Tax Liabilities	25	24,014	20,139
Dividends	26	52,653	47,344
Borrowings	28	150,000	135,000
Other Financial Liabilities	29	18,444	18,370
Provisions	30	17,890	15,471
Total Current Liabilities		<u>314,825</u>	<u>280,736</u>
Non-Current Liabilities			
Borrowings	28	315,480	290,000
Other Financial Liabilities	29	-	1,944
Provisions	30	76,524	71,739
Total Non-Current Liabilities		<u>392,004</u>	<u>363,683</u>
Total Liabilities		<u>706,829</u>	<u>644,419</u>
NET ASSETS		<u>1,290,822</u>	<u>1,101,005</u>
EQUITY			
Contributed Equity		403,863	249,148
Retained Earnings		886,959	851,857
TOTAL EQUITY		<u>1,290,822</u>	<u>1,101,005</u>

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

**DEFENCE HOUSING AUSTRALIA
CASH FLOW STATEMENT**

for the year ended 30 June 2010

	Notes	30 June 2010 \$'000	30 June 2009 \$'000
OPERATING ACTIVITIES			
Cash Received			
Sales of Goods and Services		569,299	534,525
Sales of Inventory		300,335	260,909
Interest		14,207	5,189
Other Cash Received		465	143
Stamp Duty and Land Tax Equivalents Received		20,728	19,457
Total Cash Received		<u>905,034</u>	<u>820,223</u>
Cash Used			
Employees		53,944	52,526
Suppliers		452,821	428,272
Interest		29,311	27,517
Income Taxes Paid		16,225	19,854
Stamp Duty and Land Tax Equivalents Paid		25,493	22,009
Acquisition of Inventories		249,611	125,135
Total Cash Used		<u>827,405</u>	<u>675,313</u>
Net Cash From Operating Activities	31	<u>77,629</u>	<u>144,910</u>
INVESTING ACTIVITIES			
Cash Received			
Proceeds from Sales of Investment Properties		78,733	110,111
Proceeds from Sales of Plant and Equipment		6	2
Defence Annuities		28,003	36,480
Total Cash Received		<u>106,742</u>	<u>146,593</u>
Cash Used			
Acquisition of Investment Properties		220,770	148,383
Defence Annuities		6,888	14,505
Acquisition of Plant and Equipment		1,085	2,109
Investment in Associates		208	(69)
Total Cash Used		<u>228,951</u>	<u>164,928</u>
Net Cash (Used By) Investing Activities		<u>(122,209)</u>	<u>(18,335)</u>
FINANCING ACTIVITIES			
Cash Received			
Proceeds from Debt		40,480	25,000
Contributed Equity		161,000	-
Total Cash Received		<u>201,480</u>	<u>25,000</u>
Cash Used			
Dividend Paid		47,344	44,279
Total Cash Used		<u>47,344</u>	<u>44,279</u>
Net Cash From / (Used By) Financing Activities		<u>154,136</u>	<u>(19,279)</u>
Net Increase in Cash Held			
		<u>109,556</u>	<u>107,296</u>
Cash and Cash Equivalents at the Beginning of the Reporting Period		162,666	55,370
Cash and Cash Equivalents at the End of the Reporting Period	14	<u>272,222</u>	<u>162,666</u>

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

**DEFENCE HOUSING AUSTRALIA
STATEMENT OF CHANGES IN EQUITY**
for the year ended 30 June 2010

	Retained Earnings		Contributed Equity		Total Equity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening Balance	851,857	820,295	249,148	249,148	1,101,005	1,069,443
Comprehensive Income	-	-	-	-	-	-
Other Comprehensive Income	87,755	78,906	-	-	87,755	78,906
Profit for the Period	-	-	-	-	-	-
Total Comprehensive Income of which: Attributable to the Australian Government	87,755	78,906	-	-	87,755	78,906
Transactions with Owners						
Distributions to Owners	(52,653)	(47,344)	-	-	(52,653)	(47,344)
Returns on Capital:						
Dividends	-	-	(6,285)	-	(6,285)	-
Transfer to Department of Defence ¹	-	-	-	-	-	-
Contributions from Owners	-	-	-	-	-	-
Equity Injection ²	-	-	161,000	-	161,000	-
Sub-total Transactions with Owners	(52,653)	(47,344)	154,715	-	102,062	(47,344)
Closing Balance as at 30 June	886,959	851,857	403,863	249,148	1,290,822	1,101,005
Closing Balance Attributable to the Australian Government	886,959	851,857	403,863	249,148	1,290,822	1,101,005

¹DHA transferred land, originally received via an equity contribution, to Defence. The land was held at Ingleburn, NSW.

²DHA received an equity injection of \$161,000,000 under the Nation Building Economic Stimulus Package.

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

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**DEFENCE HOUSING AUSTRALIA
SCHEDULE OF COMMITMENTS**

as at 30 June 2010

	30 June 2010 \$'000	30 June 2009 \$'000
BY TYPE		
Commitments Receivable		
Sublease Rental Income ¹	399	1,059
Operating Lease Income ²	2,946,409	2,928,044
Total Commitments Receivable	2,946,808	2,929,103
Capital Commitments		
Construction Commitments ³	122,123	154,349
Total Capital Commitments	122,123	154,349
Other Commitments		
House Operating Lease Rentals ⁴	2,332,510	2,347,825
Other Operating Leases ⁵	16,396	11,671
Total Other Commitments	2,348,906	2,359,496
Net Commitments By Type	475,779	415,258
BY MATURITY		
Commitments Receivable		
Operating Lease Income		
One Year or Less	336,798	303,044
From One to Five Years	1,284,075	1,176,585
Over Five Years	1,325,536	1,448,415
Total Operating Lease Income	2,946,409	2,928,044
Other Commitments Receivable		
One Year or Less	399	673
From One to Five Years	-	386
Total Other Commitments Receivable	399	1,059
Commitments Payable		
Capital Commitments		
One Year or Less	121,548	150,773
From One to Five Years	575	3,576
Total Capital Commitments	122,123	154,349
Operating Lease Commitments		
One Year or Less	287,307	259,223
From One to Five Years	1,121,342	1,045,892
Over Five Years	940,257	1,054,381
Total Operating Lease Commitments	2,348,906	2,359,496
Net Commitments by Maturity	475,779	415,258

NB: Commitments are GST inclusive where relevant.

¹ Amount receivable on sub-let commercial property.

² Rent receivable under the head lease agreement with the Department of Defence.

³ Outstanding contractual payments for buildings under construction.

⁴ Outstanding payments due on properties leased.

⁵ Operating leases included are effectively non-cancellable and comprise leases for office accommodation and the provision of motor vehicles to staff.

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

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**DEFENCE HOUSING AUSTRALIA
SCHEDULE OF CONTINGENCIES**

as at 30 June 2010

	30 June 2010 \$'000	30 June 2009 \$'000
Contingent Assets		
Total Contingent Assets	-	-
Contingent Liabilities		
Guarantees	1,055	1,645
Total Contingent Liabilities	1,055	1,645
Net Contingent Assets (Liabilities)	(1,055)	(1,645)

Details of each class of contingent liabilities and contingent assets listed above are disclosed in Note 32: Contingent Liabilities and Assets, along with information on significant remote contingencies and contingencies that cannot be quantified.

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

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Notes to and forming part of the Financial Statements**Note 1: Summary of Significant Accounting Policies****1.1 Objectives of DHA**

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

DHA is structured to meet one outcome:

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

The continued existence of DHA in its present form and with its present operations is dependant on Government policy.

1.2 Basis of Preparation of the Financial Statements

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

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (or FMOs) applicable to for profit entities for reporting periods ending on or after 1 July 2009; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard or FMOs, 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 32).

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

1.3 Significant Accounting Judgement and Estimates

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

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

Notes to and forming part of the Financial Statements

- The fair value of investment properties has been assessed by an independent valuer. Where the fair value less costs to sell for an individual property is less than its cost, the carrying value of the property is written down to the fair value less costs to sell.
- A liability is recognised for make good costs to be incurred on the expiry of long term leases, based upon the expected future economic outflows for DHA.

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.

1.4 New Australian Accounting Standards

In the current year, DHA has adopted all of the new and revised standards issued by the Australian Accounting Standard Board (AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised standards and interpretations have not had any material impact on DHA accounting policies or amounts reported in current or prior years.

At the date of authorisation of the financial report, the following standards and interpretations were in issue but not yet effective:

AASB 2009-11 "Amendments to Australian Accounting Standard arising from AASB 9" - effective for annual reporting periods beginning on or after 1 January 2013.

AASB 2009-12 "Amendments to Australian Accounting Standards" - effective for annual reporting periods beginning on or after 1 January 2013.

AASB 2009-13 "Amendments to Australian Accounting Standards arising from Interpretation 19" - effective for annual reporting periods beginning on or after 1 July 2010.

AASB 2009-14 "Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement" - effective for annual reporting periods beginning on or after 1 January 2011.

AASB 2010-1 "Amendments to Australian Accounting Standards - Limited Exemption from Comparative AASB 7 Disclosure for First-time Adopters" - effective for annual reporting periods beginning on or after 1 July 2010.

AASB 2009-5 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" - effective for annual reporting periods beginning on or after 1 January 2010.

AASB 2010-2 "Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements" - effective for annual reporting periods beginning on or after 1 January 2013.

AASB 2010-3 "Amendments to Australian Accounting Standards arising from the Annual Improvements Project" - effective for annual reporting periods beginning on or after 1 January 2010.

AASB 2010-4 "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project" - effective for annual reporting periods beginning on or after 1 January 2011.

Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments" - effective for annual reporting periods beginning on or after 1 July 2010.

Interpretation 2 "Members Shares in Co-operative Entities and Similar Instruments" - effective for annual reporting periods beginning on or after 1 January 2011.

Interpretation 4 "Determining whether an Arrangement contains a Lease" - effective for annual reporting periods beginning on or after 1 January 2011.

Interpretation 14 "Members Shares in Co-operative Entities and Similar Instruments" - effective for annual reporting periods beginning on or after 1 January 2011.

Interpretation 16 "Hedges of a Net Investment in a Foreign Operation" - effective for annual reporting periods beginning on or after 1 January 2011.

Interpretation 1039 "Substantive Enactment of Major Tax Bills in Australia" - effective for annual reporting periods beginning on or after 1 January 2011.

Notes to and forming part of the Financial Statements

Interpretation 1052 "Tax Consolidation Accounting" - effective for annual reporting periods beginning on or after 1 January 2011.

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of DHA but may change disclosures made.

These standards and interpretations will be first applied in the financial report of DHA that relates to the annual reporting period beginning after the effective date of each pronouncement.

1.5 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. 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. Allowances are made when collectability of the debt is judged to be no longer probable.

1.6 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.

1.7 Employee Benefits

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' that is, wages and salaries and annual leave, 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.

Notes to and forming part of the Financial StatementsLeave

The liability for employee benefits includes provision 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 an employee's departure.

The liability for long service leave has been determined by reference to Part E, Chapter 43 of the Finance Minister's Orders 2009-2010. 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 2010, is recognised and measured at the present value of the estimated future cash flows, based on the shorthand method.

Superannuation

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

The CSS and PSS are defined benefit schemes for the Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Government and is settled by the Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

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

From 1 July 2005, new employees are eligible to join the 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.

Employee Benefit On Costs

A provision for employee benefit on costs is recognised in accordance with Part E, Chapter 43 of the Finance Minister's Orders 2009-2010. Payroll tax and workers compensation liabilities associated with employee benefits are required to be separately disclosed.

1.8 Leases**DHA as Lessee**

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 rewards incidental to ownership of leased assets. Operating leases result in the lessor substantially retaining all such risks and benefits of the asset.

Operating Leases

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

Notes to and forming part of the Financial Statements

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 DHA and the Commonwealth Department of Defence (Defence);
- b. commercial property for the administration of DHA; and
- c. motor vehicles used in the operations of DHA.

DHA does not have any finance leases payable.

DHA as Lessor

Finance Leases

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 revenue under Housing Services Provided.

1.9 Sale and Leaseback Provision

DHA records the entire sale proceeds as revenue at the time of settlement.

DHA is required under the leaseback agreement to undertake prescribed maintenance (make good) at the end of the lease period.

At the time of recording the sale, a provision is raised to recognise the make good obligation. The provision is based on an assessment of the present value of the necessary costs to make good properties at the end of their lease terms. The estimate includes an inflation factor of 3.0% (2009: 3.2%) and a discount rate of 5.3% (2009: 5.5%), being the 5 year swap rate as at 30 June 2010.

Actual make good expenditure is charged, as incurred against the provision. The estimate of future make good maintenance is reviewed annually to ensure that the make good provision is adequate to meet the liability.

1.10 Interest Bearing Loans and Borrowings

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

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

1.11 Income Tax

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

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

Notes to and forming part of the Financial Statements

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

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

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

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

1.12 Dividends

A provision for dividend is recognised as a liability when dividends are appropriately authorised by the Board and is no longer at the discretion of the entity. DHA determines dividend liability annually and is required to pay 60 per cent of after tax profits to shareholders as a dividend. In accordance with paragraph 41.3 of the FMOs and a DHA Board resolution, DHA has recognised the liability for the 2010 dividend at balance date. Refer to Note 2.

1.13 Cash and Cash Equivalents

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

1.14 Financial Assets

DHA classifies its financial assets as loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised upon trade date.

Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis.

Loans and Receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Notes to and forming part of the Financial StatementsImpairment of Financial Assets

Financial assets are assessed for impairment at each balance date.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the statement of comprehensive income.

1.15 Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities are recognised and derecognised upon trade date.

Other Financial Liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

Trade and Other Payables

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.16 Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

1.17 Software Development

Costs relating to the development of new software 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.

1.18 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

Properties held by DHA are classified as either Inventory or Investment Properties.

Notes to and forming part of the Financial Statements

DHA adopts AASB 102 – Inventories for those properties that are provisioned with the specific purpose of sale within the short-medium term (1-5 years) in order to release capital for reinvestment.

DHA adopts AASB 140 – Investment Property for those properties that are held for long-term provisioning purposes or for capital appreciation.

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. Office fitouts 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:

	<u>2010</u>	<u>2009</u>
Off-Base Properties	50 years	50 years
Office Fitouts	40 years	40 years
Plant and Equipment	2 to 19 years	2 to 19 years
Software	2.5 to 6 years	2.5 to 6 years

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 2010. 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.

1.19 Investment Properties

Investment properties are separated into the following categories:

- a. Completed properties;
- b. Land held for future development; or
- c. Work in progress – Incomplete construction projects.

Investment properties are recognised at the lower of cost and fair value less costs to sell. The fair value less costs to sell represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing and selling.

1.20 Investment Properties for Sale

DHA holds a proportion of its investment properties for sale. Investment properties are deemed eligible for sale when they have below average capital growth expectations; carry high repairs and maintenance expenditure; are permanently privately leased out; have no redevelopment opportunities or have low rental yield.

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

Notes to and forming part of the Financial Statements**1.21 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; or
- 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.

1.22 Repairs and Maintenance

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

1.23 Joint VenturesJointly 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 and revenues 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 - refer note 1.28.

1.24 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.

1.25 Competitive Neutrality (State Tax Equivalent Payments)

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

DHA includes State Tax Equivalent payments in the expenditure items to which they relate. Payroll tax is included in Employee Expenses and is detailed in Note 7. Land tax and stamp duty on property acquisitions are included in Rates, Repairs and Maintenance and are detailed in Note 8.

DHA capitalises stamp duty incurred on vacant land acquisitions.

DHA, in accordance with the Defence Services Agreement on Housing and Related Matters, is entitled to recover from the Department of Defence the cost of land tax and stamp duty on property acquisitions. These recoveries form part of Defence Other Charges detailed in Note 3.

Notes to and forming part of the Financial Statements**1.26 Rounding**

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

- Remuneration of Key Management Personnel; and
- Remuneration of Auditors.

1.27 Financial Risk Management

DHA's principle financial instruments comprise receivables, payables, government loans, finance leases, cash and short term deposits.

It manages its exposure to key financial risks in accordance with DHA's treasury and risk management policy. The objective of the policy is to support the delivery of DHA's financial targets whilst protecting future financial security.

The main risks arising from DHA's financial instruments are interest rate risk, credit risk and liquidity risk. DHA uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring the level of exposure to interest rate and assessments of forecasts for interest rate. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with DHA Treasury who report to the DHA Board within five business days after the last business day of the month. Breaches of DHA's cash investment policy are to be reported to the Chief Financial Officer immediately for consent of action proposed or undertaken with full details provided in the monthly report to the DHA Board.

1.28 Investments in Associates

DHA acquired 10 per cent of the issued capital of Crace Developments Pty Ltd (Crace) in 2008. It has been determined that Crace is an associate. Crace is a 50 per cent participant in the Crace Joint Venture between Canberra Investment Corporation Ltd, Tatebrook Pty Limited, Community Housing Canberra Limited, DHA and the Land Development Agency.

Associates are all entities over which DHA has significant influence but not control. The Crace Shareholders Agreement provides DHA significant influence over the management of the company. Investments in associates are accounted for in the Financial Statements using the equity method of accounting, after initially being recognised at cost. DHA's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 39).

DHA's share of its associates' post-acquisition profits or losses is recognised in the Income Statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

Where DHA's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, DHA does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between DHA and its associates are eliminated to the extent of DHA's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Notes to and forming part of the Financial Statements**1.29 Nation Building Economic Stimulus Package (NB-ESP)**

The Government committed funds of \$245,580,000 to DHA to construct 829 dwellings for Australian Defence Force personnel in metropolitan and regional centres.

An equity injection of \$161,000,000 and a debt funded payment of \$40,480,000 was received by DHA during the financial year.

A final debt funded payment of \$44,100,000 will be received by DHA next fiscal year.

NB-ESP construction is estimated to be completed by March 2011.

Notes to and forming part of the Financial Statements**Note 2: Final Dividends**

The DHA Board has declared a final dividend for the year ending 30 June 2010 of \$52,653,045 (2009: \$47,343,538). The DHA Board resolved on 27 May 2010 to pay a dividend of 60 per cent of net profit after tax. In accordance with paragraph 41.3 of the FMO's, DHA has recognised a liability for the dividend.

	30 June 2010 \$'000	30 June 2009 \$'000
Final Dividend	52,653	47,344

Note 3: Housing Services Provided

Defence Rent and Charges	434,552	408,094
Defence Other Charges	27,134	16,538
Lessor Management Fees	38,899	34,632
Other Revenue	10,242	8,278
Total Housing Services Provided	510,827	467,542

Housing Services Provided are made up of:

Housing Services - Related Entities	464,998	427,815
Housing Services - External Parties	45,829	39,727
Total Housing Services Provided	510,827	467,542

Note 4: Allocation Services Provided

Allocation Administration Fees	8,710	9,750
Total Allocation Services Provided	8,710	9,750

Note 5: Interest Received

Interest on Deposits	17,157	5,820
Interest from Crace Developments Pty Ltd	119	244
Total Interest Received	17,276	6,064

Note 6: Net Gains from Disposal of Investment Properties

Proceeds from Sale	88,304	127,062
Carrying Value of Assets Sold	(56,093)	(82,853)
Selling Expenses	(2,197)	(2,971)
Net Gains from Disposal of Investment Properties	30,014	41,238

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
Note 7: Employee Expenses		
Wages and Salaries	33,978	32,390
Superannuation		
Defined Contribution Plans	4,076	3,864
Defined Benefit Plans	2,779	2,527
Leave and Other Entitlements	4,647	3,796
Separation and Redundancies	-	(741)
Payroll Tax Equivalent	3,351	2,937
Workers' Compensation Premiums	243	305
Total Employee Expenses	49,074	45,078

Note 8: Rates, Repairs and Maintenance

Heritage Upgrades for Defence	5,839	2,929
Other Property Charges	36,573	23,132
Rates and Municipal Charges	8,032	7,730
Stamp Duty and Land Tax Equivalent	22,354	18,899
Repairs and Maintenance	36,305	40,023
Total Rates, Repairs and Maintenance	109,103	92,713

Stamp duty and land tax is a related party transaction associated with Defence. All other expenses are incurred with external parties.

Note 9: Depreciation and Amortisation

Depreciation		
Investment Properties	10,309	8,072
Other Plant and Equipment	1,333	1,132
Total Depreciation	11,642	9,204
Amortisation		
Software	1,940	3,162
Total Amortisation	1,940	3,162
Total Depreciation and Amortisation	13,582	12,366

Note 10: Finance Costs

Interest on Loans	29,311	27,517
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Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
Note 11: Write-Down and Impairment of Assets		
Non-Financial Assets		
Write-Downs and Impairments		
Investment ¹	5,193	8,345
Inventories ²	4,596	17,905
Total Write-Downs and Impairments	9,789	26,250
Reversals		
Investment ¹	(3,491)	(2,252)
Inventories ²	(2,350)	(1,502)
Total Reversals	(5,841)	(3,754)
Net Write-Down and Impairment of Assets	3,948	22,496

¹To ensure compliance with AASB 140 Investment Property, an independent assessment of investment properties was undertaken by registered valuers as at 30 June 2010. The carrying value of individual properties, where the cost of the property exceeded the fair value less costs to sell, have been written down accordingly. Refer also Note 22.

²To ensure compliance with AASB 102 – Inventories, an independent assessment of inventory properties was undertaken by registered valuers as at 30 June 2010. The carrying value of individual properties, where the cost of the property exceeded the net realisable value, have been written down accordingly. Refer also Note 19.

³The carrying values of plant, equipment and software 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. Refer also Note 20.

Note 12: Income Tax Expense**(a) Income Tax Expense**

Current Tax	24,014	20,139
Deferred Tax	5,804	(2,852)
Adjustments for Current Tax of Prior Periods	(3,913)	(3,902)
	25,905	13,385

Income Tax Expense is Attributable to:

Profit from Continuing Operations	23,370	11,295
Profit from Discontinued Operations	2,535	2,090
	25,905	13,385

Deferred Income Tax Expense (Revenue) Included in Income Tax Expense
Comprises:

Decrease (Increase) in Deferred Tax Assets (Note 18)	5,804	(2,852)
	5,804	(2,852)

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
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Note 12: Income Tax Expense (continued)**(b) Numerical Reconciliation of Income Tax Expense to Prima Facie Tax Payable**

Profit from Continuing Operations Before Income Tax Expense	105,209	85,323
Profit from Discontinuing Operations Before Income Tax Expense	<u>8,451</u>	<u>6,968</u>
Tax at the Australian Tax Rate of 30% (2009: 30%)	34,098	27,687
Tax Effect of Amounts which are Not Deductible (Taxable) in Calculating Taxable Income:		
Entertainment	21	27
Tax Cost Base Valuations	(4,301)	(10,427)
Adjustments for Current Tax of Prior Periods	<u>(3,913)</u>	<u>(3,902)</u>
Total Income Tax Expense	<u>25,905</u>	<u>13,385</u>

As a result of DHA becoming a taxable entity on 1 July 2007, an unrecognised temporary difference was created between the accounting carrying value and the tax values for property held as Investment Property. The unrecognised value of the temporary difference at 30 June 2010 is \$631,594,418 (2009: \$664,861,005). The tax effect of this temporary difference is \$189,478,325 (2009: \$199,458,302).

Note 13: Discontinued Operations**(a) Description**

In November 2009, DHA was formally advised by the Department of Defence of its unsuccessful tender submission for the ongoing provision of Relocation Administration Services (Pair B services) beyond 30 June 2010. As a result, DHA will no longer receive this revenue stream and accordingly will incur less expenditure, predominantly due to reduced staff numbers.

Financial information relating to the discontinued operation is set out below.

(b) Financial Performance and Cash Flow Information

The financial performance and cash flow information presented are for the twelve months ended 30 June.

Revenue	82,596	80,981
Expenses	<u>(74,145)</u>	<u>(74,013)</u>
Profit Before Income Tax	8,451	6,968
Income Tax Expense	<u>(2,535)</u>	<u>(2,090)</u>
Profit After Income Tax of Discontinued Operations	<u>5,916</u>	<u>4,878</u>
Profit From Discontinued Operations	<u>5,916</u>	<u>4,878</u>

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
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Note 13: Discontinued Operations (continued)

Net Cash Inflow From Operating Activities	4,789	5,135
Net Cash Inflow (Outflow) From Investing Activities	-	(651)
Net Cash (Outflow) From Financing Activities	-	-
Net Increase in Cash Generated by the Division	<u>4,789</u>	<u>4,484</u>

(c) Carrying Amounts of Assets and Liabilities

The carrying amounts of assets and liabilities as at 30 June were:

Property, Plant and Equipment	-	452
Trade Receivables	258	590
Deferred Tax Asset	<u>121</u>	<u>513</u>
Total Assets	<u>379</u>	<u>1,555</u>
Trade Creditors	588	1,146
Provision for Employee Benefits	330	1,388
Provision - Other Taxes	2,265	2,661
Provision - Other	<u>82</u>	<u>373</u>
Total Liabilities	<u>3,265</u>	<u>5,568</u>
Net Assets	<u>(2,886)</u>	<u>(4,013)</u>
Net Equity	<u>(2,886)</u>	<u>(4,013)</u>

Note 14: Cash and Cash Equivalents

Cash at Bank	1,254	4,099
Cash on Hand	16	16
Short Term Deposits	<u>270,952</u>	<u>158,551</u>
Total Cash and Cash Equivalents	<u>272,222</u>	<u>162,666</u>

All cash recognised is a current asset.

Note 15: Trade and Other Receivables

Current		
Department of Defence	2,191	6,520
Accrued Income	17,328	11,510
Other Receivables	<u>1,206</u>	<u>203</u>
Total Receivables for Goods and Services	<u>20,725</u>	<u>18,233</u>
Non-Current		
Other Receivables from External Parties	<u>555</u>	-
Total Receivables for Goods and Services	<u>555</u>	<u>-</u>
Total Trade and Other Receivables (Net)	<u>21,280</u>	<u>18,233</u>

Notes to and forming part of the Financial Statements

	30 June	30 June
	2010	2009
	\$'000	\$'000

Note 15: Trade and Other Receivables (continued)

Good and Services

Goods and Services - Related Entities	15,699	17,424
Goods and Services - External Parties	5,581	809
Total Trade and Other Receivables (Net)	21,280	18,233

Receivables are expected to be recovered in:

Less than 12 Months	20,725	18,233
More than 12 Months	555	-
Total Trade and Other Receivables (Net)	21,280	18,233

Credit terms are between 7 and 30 days.

Receivables are aged as follows:

Less than 30 Days	21,165	17,963
30 to 60 Days	8	3
61 to 90 Days	-	36
More than 120 Days	194	347
Total Trade and Other Receivables (Gross)	21,367	18,349

The impairment allowance account is aged as follows:

90 to 120 Days	-	-
More than 120 Days	87	116
Total Impairment Allowance Account	87	116

Reconciliation of the Impairment Allowance Account:

Movements in Relation to 2010

	Department of Defence \$'000	Other Receivables \$'000	Total 2010 \$'000
Opening Balance	-	116	116
Amounts Written off	-	(29)	(29)
Amounts Recovered and Reversed	-	-	-
Increase/Decrease Recognised in Net Surplus	-	-	-
Closing Balance	-	87	87

Movements in Relation to 2009

	Department of Defence \$'000	Other Receivables \$'000	Total 2009 \$'000
Opening Balance	254	87	341
Amounts Written Off	(254)	-	(254)
Amounts Recovered and Reversed	-	-	-
Increase/Decrease Recognised in Net Surplus	-	29	29
Closing Balance	-	116	116

Notes to and forming part of the Financial Statements

	30 June	30 June
	2010	2009
	\$'000	\$'000

Note 16: Investment Properties for Sale

Investment Properties - At Cost	38,865	14,809
Investment Properties - At Cost (Less Impairment)	6,500	1,495
Total Investment Properties for Sale	45,365	16,304

This amount represents investment properties that are currently available for sale.

Note 17: Other Current Assets

Finance Lease Receivable (Note 23)	7,601	7,195
Other Prepayments	1,014	373
Prepaid Property Rentals	23,101	25,824
Total Other Current Assets	31,716	33,392

Note 18: Deferred Tax Assets

The balance comprises Temporary Differences attributable to:

Employee Benefits	3,353	2,722
Doubtful Debts	26	35
Make Good Provision	23,674	22,075
Provisions	1,082	1,041
Lyons Joint Venture	-	1,538
Property, Plant and Equipment	378	114
Inventory Properties	3,179	7,609
Investment Properties	-	1,158
Total Deferred Tax Assets	31,692	36,292

Set-off of deferred tax liabilities pursuant to set-off provisions (Note 27)	(1,530)	(326)
Net Deferred Tax Assets	30,162	35,966

Deferred Tax Assets expected to be recovered within 12 months	2,822	3,792
Deferred Tax Assets expected to be recovered after more than 12 months	27,340	32,174
	30,162	35,966

Reconciliation of Deferred Tax Assets

	2010	2009
	\$'000	\$'000
Opening Balance 1 July	35,966	33,114
Charged to the Income Statement	(5,804)	2,852
Closing Balance 30 June	30,162	35,966

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
Note 19: Inventories		
Completed Properties – At Cost	200,743	295,873
Completed Properties – At Net Realisable Value	153,286	156,682
Work in Progress – At Cost	94,460	52,735
Work in Progress - At Net Realisable Value	29,433	17,278
Total Inventories	477,922	522,568
Current	176,817	257,376
Non-Current	301,105	265,192
	477,922	522,568

The total fair value of completed inventory properties at 30 June 2010 is \$385,635,005 (2009: \$477,020,873).

Note 20: Plant, Equipment and Intangibles

Plant and Equipment - At Cost	10,485	11,162
Less: Accumulated Depreciation	(7,579)	(7,358)
	2,906	3,804
Software Development - At Cost	19,972	21,076
Less: Accumulated Amortisation	(16,893)	(16,254)
	3,079	4,822
Software Development - At Cost	650	-
Less: Accumulated Amortisation	(458)	-
Less: Impairment	(192)	-
	-	-
Total Plant, Equipment and Intangibles (Non-Current)	5,985	8,626

Notes to and forming part of the Financial Statements**Note 20: Plant, Equipment and Intangibles (continued)****Reconciliation of the Opening and Closing Balances of Plant and Equipment**

	2010 \$'000	2009 \$'000
Opening Balance		
Gross Book Value	11,162	14,927
Accumulated Depreciation and Impairment	(7,358)	(11,071)
Opening Net Book Value 1 July	3,804	3,856
Additions		
By Purchase	819	970
Depreciation Expense	(1,073)	(934)
Disposals		
Other Disposals	(1,495)	(4,734)
Depreciation/Impairment Written Back on Disposal	851	4,646
Closing Net Book Value 30 June	2,906	3,804
Closing Net Book Value 30 June represented by:		
Gross Book Value	10,485	11,162
Accumulated Depreciation and Impairment	(7,579)	(7,358)
Closing Net Book Value 30 June	2,906	3,804

Reconciliation of the Opening and Closing Balances of Software Development

	2010 \$'000	2009 \$'000
Opening Balance		
Gross Book Value	21,076	21,857
Accumulated Amortisation and Impairment	(16,254)	(14,540)
Opening Net Book Value 1 July	4,822	7,317
Additions		
By Purchase	1,056	1,140
Net Impairments Recognised in the Discontinued Operations Result	(192)	-
Amortisation Expense	(2,461)	(3,559)
Disposals		
Other Disposals	(1,509)	(1,921)
Amortisation/Impairment Written Back on Disposal	1,363	1,845
Closing Net Book Value 30 June	3,079	4,822
Closing Net Book Value 30 June represented by:		
Gross Book Value	20,622	21,076
Accumulated Amortisation and Impairment	(17,543)	(16,254)
Closing Net Book Value 30 June	3,079	4,822

Notes to and forming part of the Financial Statements

	30 June 2010	30 June 2009
	<u>\$'000</u>	<u>\$'000</u>

Note 21: Investments Accounted for Using the Equity Method**Share in Associates (Note 39)**

Crace Developments Pty Ltd	4,776	4,568
Total Share in Associates	<u>4,776</u>	<u>4,568</u>

Investments in associates are accounted for in the financial statements using the equity method of accounting and are carried at cost less accumulated losses.

Note 22: Investment Properties

Investment Properties - At Cost	858,752	744,705
Less: Accumulated Depreciation	<u>(67,661)</u>	<u>(60,726)</u>
	<u>791,091</u>	<u>683,979</u>

Investment Properties - At Cost	190,667	120,406
Less: Accumulated Depreciation	<u>(2,137)</u>	<u>(1,848)</u>
Less: Impairment	<u>(13,323)</u>	<u>(11,977)</u>
	<u>175,207</u>	<u>106,581</u>

Total Investment Properties	<u>966,298</u>	<u>790,560</u>
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The total fair value of completed investment properties (including investment properties held for sale) at 30 June is \$1,701,436,176 (2009: \$1,330,783,748).

Reconciliation of the Opening and Closing Balances of Investment Properties

	2010	2009
	<u>\$'000</u>	<u>\$'000</u>
Opening Balance		
Gross Book Value	865,111	709,888
Accumulated Depreciation and Impairment	<u>(74,551)</u>	<u>(65,536)</u>
Opening Net Book Value 1 July	<u>790,560</u>	<u>644,352</u>
Additions		
By Purchase	232,310	70,414
By Transfer from Inventory	35,162	90,963
Net Impairments Recognised in the Operating Result	<u>(1,556)</u>	<u>(6,033)</u>
Depreciation Expense	<u>(10,309)</u>	<u>(8,072)</u>
Transfer (to) / from Assets Held For Sale	<u>(54,746)</u>	<u>24,720</u>
Disposals		
Other Disposals	<u>(25,731)</u>	<u>(30,874)</u>
Depreciation/Impairment Written Back on Disposal	<u>608</u>	<u>5,090</u>
Closing Net Book Value 30 June	<u>966,298</u>	<u>790,560</u>
Closing Net Book Value 30 June represented by:		
Gross Book Value	1,049,419	865,111
Accumulated Depreciation and Impairment	<u>(83,121)</u>	<u>(74,551)</u>
Closing Net Book Value 30 June	<u>966,298</u>	<u>790,560</u>

Notes to and forming part of the Financial Statements

	30 June 2010	30 June 2009
	<u>\$'000</u>	<u>\$'000</u>

Note 23: Finance Lease Receivables

Current Finance Lease Receivables		
Due not later than 1 year	7,601	7,195
Total Current Finance Lease Receivables (Note 17)	<u>7,601</u>	<u>7,195</u>

Non-Current Finance Lease Receivables		
Due later than 1 year not later than 5 years	80,183	86,084
Due later than 5 years	<u>61,742</u>	<u>66,457</u>
Total Non-Current Finance Lease Receivables	<u>141,925</u>	<u>152,541</u>
Total Finance Lease Receivables	<u>149,526</u>	<u>159,736</u>

Current

Total Payments Receivables	18,379	18,741
Future Finance Charges	<u>(10,778)</u>	<u>(11,546)</u>
Current Finance Lease Receivables	<u>7,601</u>	<u>7,195</u>

Non-Current

Total Payments Receivables	203,528	226,025
Future Finance Charges	<u>(61,603)</u>	<u>(73,484)</u>
Non-Current Finance Lease Receivables	<u>141,925</u>	<u>152,541</u>

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 Revenue under Housing Services Provided.

Note 24: Trade and Other Payables

Trade Creditors	5,682	7,273
Accrued Expenses	36,334	27,226
Accrued Repairs and Maintenance	1,074	2,905
Stamp Duty and Land Tax Payable	<u>8,734</u>	<u>7,008</u>
Total Trade and Other Payables	<u>51,824</u>	<u>44,412</u>

Trade creditors are normally settled on 30 day terms.

Note 25: Current Tax Liabilities

Income Tax Payable	<u>24,014</u>	<u>20,139</u>
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Note 26: Dividends

Payable to the Government	<u>52,653</u>	<u>47,344</u>
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Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
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Note 27: Deferred Tax Liabilities

The Balance comprises Temporary Differences attributable to:

Investment Property	335	-
Prepayments	5	21
Accrued Income	1,190	305
Total Deferred Tax Liabilities	1,530	326

Set-off of deferred tax liabilities pursuant to set-off provisions	(1,530)	(326)
Net Deferred Tax Liabilities	-	-

Note 28: Borrowings

Loans from Department of Finance and Deregulation	425,000	425,000
Loans from Department of Defence	40,480	-
Total Borrowings	465,480	425,000

Maturity Schedule for Borrowings Payable:

Within One Year	150,000	135,000
In One to Five Years	285,480	260,000
In More than Five Years	30,000	30,000
Total Borrowings	465,480	425,000

DHA has an unsecured borrowing facility with the Department of Finance and Deregulation, incorporating all borrowings, underpinned by a Loan Agreement dated 31 August 2006. The Loan Agreement affords DHA the flexibility to borrow at either fixed or floating interest rates at market rates which includes a competitor neutrality charge. A change in government policy has resulted in any loan arrangements appropriated since 1 July 2008 to be borrowed from the Department of Defence. During the financial year DHA borrowed \$40,480,000 and refinanced a further \$95,000,000 for varying terms out to 3 years.

Note 29: Other Financial Liabilities

Other Financial Liabilities are Represented By:

Current		
Revenue in Advance	18,444	18,370
Non-Current		
Revenue in Advance	-	1,944
Total Other Financial Liabilities	18,444	20,314

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
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Note 30: Provisions**Current**

Employee		
Annual Leave	3,978	3,934
Long Service Leave	3,437	2,826
Employee Benefits On Costs	482	-
	7,897	6,760

Other

Make Good Provision	6,068	5,410
Other General Provisions	3,925	3,301
	9,993	8,711

Total Current

	17,890	15,471
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Non-Current

Employee		
Long Service Leave	2,299	2,186
Employee Benefits On Costs	149	-
	2,448	2,186

Other

Make Good Provision	72,844	68,173
Other General Provisions	1,232	1,380
	74,076	69,553

Total Non-Current

	76,524	71,739
--	---------------	---------------

Total Provisions

	94,414	87,210
--	---------------	---------------

Movements in each class of provision during the financial year, other than employee benefits, are below:

	Other General Provisions	Make Good Provision	Total
Reconciliation of Provision Movement			
Opening Balance 1 July	4,681	73,583	78,264
Additional Provisions Made	3,843	9,240	13,083
Amount Used	(3,367)	(3,911)	(7,278)
Closing Balance 30 June	5,157	78,912	84,069

Other general provisions include amount set aside for:

- Make good on commercial tenancies at the expiration of the lease term; and
- Other sundry provisions.

Make Good Provision - where the lease term of a property is six years or more, DHA undertakes to make good the property at the expiration of lease and any extension options. The make good provision provides for the cost of refurbishing the leased property as set out in the lease agreement.

Notes to and forming part of the Financial Statements**Note 31: Cash Flow Reconciliation****Reconciliation of Operating Result to Net Cash from Operating Activities:**

	30 June 2010 \$'000	30 June 2009 \$'000
Profit (Loss) After Income Tax	87,755	78,906
Add:		
Depreciation - Plant and Equipment	3,533	4,492
Depreciation - Investment Properties	10,309	8,072
Net Write-Down and Impairment of Assets	3,575	6,099
Gain on Disposal of Assets	(33,917)	(44,210)
Decrease in Other Non Operating Cash Flow Revenue Items	(11,586)	(12,238)
Increase in Other Non Operating Cash Flow Expense Items	171	(1,280)
(Increase) / Decrease in Net Receivables	(3,069)	10,898
(Increase) / Decrease in Deferred Tax Assets	5,805	(2,852)
(Increase) / Decrease in Inventories	9,103	111,139
(Increase) / Decrease in Prepayments	2,082	(1,759)
(Decrease) / Increase in Provisions	5,925	(2,604)
Decrease in Supplier Payables	(2,200)	(4,664)
(Decrease) / Increase in Other Liabilities	(3,732)	(1,473)
(Decrease) / Increase in Tax Liabilities	3,875	(3,616)
Net Cash From / (Used By) Operating Activities	77,629	144,910

Notes to and forming part of the Financial Statements**Note 32: Contingent Liabilities and Assets**

	Guarantees		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Contingent Assets				
Balance from Previous Period	-	-	-	-
New	-	-	-	-
Expired	-	-	-	-
Total Contingent Assets	-	-	-	-
Contingent Liabilities				
Balance from Previous Period	1,645	1,836	1,645	1,836
New	278	206	278	206
Obligations Expired	(868)	(397)	(868)	(397)
Total Contingent Liabilities	1,055	1,645	1,055	1,645
Net Contingent Assets (Liabilities)	(1,055)	(1,645)	(1,055)	(1,645)

Quantifiable Contingencies

The Schedule of Contingencies in the Financial Statements reports a number of contingent liabilities in the form of bank guarantees which arise as a result of DHA's normal business operations. The amount disclosed represents the aggregate amount of such guarantees. No financial liabilities are expected to arise from provision of the guarantees.

Unquantifiable Contingencies

As at 30 June 2010, DHA has no unquantifiable contingencies.

Remote Contingencies

DHA in April 2006 and December 2006 entered into a contract with a major Australian bank to sell a substantial number of properties 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 to the purchaser in respect of warranties given.

Note 33: 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 Deregulation 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 by DHA for the reporting period are:

- CSS members: Contributions at the rate of 21.4% (2009: 27.6%) of salary for superannuation purposes, amounting to \$160,534 (2009: \$202,922);
- PSS members: Contributions at the rate of 15.5% (2009: 15.1%) of salary for superannuation purposes, amounting to \$2,871,582 (2009: \$2,745,908); and
- PSSap members: Contributions at the rate of 15.4% (2009: 15.4%) of salary for superannuation purposes, amounting to \$3,652,268 (2009: \$3,287,217).

Notes to and forming part of the Financial Statements**Note 34: Key Management Personnel Remuneration**

Mr Derek Volker AO	Chairman (Appointed 24 July 2008)
Mr Michael Del Gigante	Managing Director
Mr William Bowness	Director (Retired 21 August 2009)
Air Vice-Marshal Gary Beck AO (Ret'd)	Director (Re-Appointed 23 November 2009)
Mr Gary Potts	Director (Re-Appointed 23 November 2009)
Mr Peter Sharp	Director (Re-Appointed 23 November 2009)
The Hon J A L (Sandy) Macdonald	Director (Appointed 24 July 2008)
Ms Margaret Walker	Director (Appointed 15 July 2009)
Ms Carol Holley	Director (Appointed 23 November 2009)

The specified Executives of DHA as at 30 June 2010 were:

Michael Del Gigante	Managing Director
Robert Groom	Chief Financial Officer
Peter Howman	Chief Operating Officer
Tracy Muddle	General Manager Corporate Affairs
Steve Peddle	General Manager Operations Service Delivery
Tony Winterbottom	General Manager Sales and Marketing
Shane Nielsen	General Manager Business Solutions & Technology (Appointed 4 January 2010)
Vern Gallagher	General Manager Client Relations (Appointed 4 January 2010)

Key Management Personnel Compensation

The aggregate compensation made to directors of DHA is set below:

	2010	2009
	\$	\$
Short-Term Employee Benefits	823,201	803,518
Post-Employment Benefits	76,264	73,108
Other Long-Term Benefits	12,007	11,600
Termination Benefits	-	-
Share-Based Payments	-	-
	<u>911,472</u>	<u>888,226</u>

The aggregate compensation made to executives of DHA is set below:

	2010	2009
	\$	\$
Short-Term Employee Benefits	2,312,897	1,728,716
Post-Employment Benefits	263,033	183,890
Other Long-Term Benefits	64,138	49,800
Termination Benefits	-	-
Share-Based Payments	-	-
	<u>2,640,068</u>	<u>1,962,406</u>

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.

Notes to and forming part of the Financial Statements**Note 35: Remuneration of Auditors**

	2010	2009
	\$	\$
Amount Received or Due and Receivable by Auditors ¹		
Australian National Audit Office (ANAO) for the audit of Financial Statements ²	<u>212,300</u>	<u>203,500</u>
	<u>212,300</u>	<u>203,500</u>
Audit fees relating to the audit of Lyons Joint Venture are paid to ANAO. DHA is liable for 50% of these fees.	<u>44,170</u>	<u>42,700</u>
	<u>44,170</u>	<u>42,700</u>

¹The amounts are GST inclusive.

²No other services were provided by the ANAO during the reporting period. Deloitte Touche Tohmatsu has been contracted by the ANAO to provide audit services for 2009/10 on the ANAO's behalf. Fees for these services are included.

Note 36: Related Party Disclosures**Directors**

The Directors of DHA during the year were:

Mr Derek Volker AO	Chairman (Appointed 24 July 2008)
Mr Michael Del Gigante	Managing Director
Mr William Bowness	Director (Retired 21 August 2009)
Air Vice-Marshal Gary Beck AO (Ret'd)	Director (Re-Appointed 23 November 2009)
Mr Gary Potts	Director (Re-Appointed 23 November 2009)
Mr Peter Sharp	Director (Re-Appointed 23 November 2009)
The Hon J A L (Sandy) Macdonald	Director (Appointed 24 July 2008)
Ms Margaret Walker	Director (Appointed 15 July 2009)
Ms Carol Holley	Director (Appointed 23 November 2009)

Note 37: Economic Dependency

DHA depends on Defence in accordance with the Services Agreement between Defence and DHA. DHA received 60% of its total revenue from Defence for the year ended 30 June 2010 (2009: 63%).

Notes to and forming part of the Financial Statements**Note 38: Interest in Joint Venture Developments****The Sanctuary - Wattle Grove**

DHA holds 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.

Disposal of the final parcel of land was completed in December 2005. The joint venture continues pending receipt of final approval of the development from Liverpool City Council and Sydney Water.

The following represents DHA's total interest in the joint venture as at 30 June 2010.

The income statement and balance sheet items have been incorporated in the financial statements under their respective classifications.

	30 June 2010 \$'000	30 June 2009 \$'000
Income Statement		
Revenues	1	3
Total Profit	1	3
Balance Sheet		
Current Assets		
Cash	61	60
Receivables	-	-
Total Current Assets	61	60
Current Liabilities		
Provisions	76	76
Total Current Liabilities	76	76
Total Liabilities	76	76
Net Assets	(15)	(16)
Equity	(15)	(16)

Lyons

In March 2005, DHA entered into a joint venture with a subsidiary of CIC Australia Ltd (CIC) for the development of land at Lee Point Road in Darwin. DHA's 50% contribution to the joint venture was \$14,250,000. DHA received \$28,500,000 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 \$132,011 (2009: \$1,204,474).

DHA's interest in the joint venture has been assessed as a jointly controlled operation. 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.

	30 June 2010 \$'000	30 June 2009 \$'000
Income Statement		
Revenues	15,781	25,535
Expenses	(10,860)	(19,992)
Total Profit	4,921	5,543

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
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Note 38: Interest in Joint Venture Developments (continued)

Balance Sheet		
Current Assets		
Cash	834	3,793
Receivables	5	8
Total Current Assets	839	3,801
Non Current Assets		
Inventory	1,227	2,480
Property Plant and Equipment	18	47
Total Non Current Assets	1,245	2,527
Total Assets	2,084	6,328
Current Liabilities		
Payables	2,959	2,063
Total Current Liabilities	2,959	2,063
Total Liabilities	2,959	2,063
Net Assets	(875)	4,265
Equity	(875)	4,265

Note 39: Investments in Associates**Crace Development Pty Ltd****(a) Movements in Carrying Amounts**

Carrying Amount at the Beginning of the Financial Year	4,568	4,579
Share of Profits/(Loss) after Income Tax	49	(188)
Investments during the Year	159	474
Capital Repayment	-	(297)
Carrying amount at the end of the financial year	4,776	4,568

(b) Summarised Financial Information of Associates

DHA's share of the results of its principal associate and its aggregated assets (including goodwill) and liabilities are as follows:

	Ownership Interest %	DHA's Share of:			
		Assets	Liabilities	Revenues	Profit
2010					
Crace Developments Pty Ltd	10	6,147	3,401	801	49
		6,147	3,401	801	49
2009					
Crace Developments Pty Ltd	10	4,549	1,852	8	(188)
		4,549	1,852	8	(188)

(c) Contingent Liabilities of Associates

At balance date there were no contingent liabilities of the associate for which DHA is severally liable.

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
Note 40: Financial Instruments		
Note 40A: Categories of Financial Instruments		
Financial Assets		
Loans and Receivables Financial Assets:		
Cash at Bank	1,254	4,099
Cash on Hand	16	16
Short Term Investments	270,952	158,551
Receivables for Goods and Services (Net)	21,280	18,233
Finance Lease Receivable	149,526	159,736
Carrying Amount of Financial Assets	443,028	340,635
Financial Liabilities		
At Amortised Cost:		
Government Loans	465,480	425,000
Trade and Other Payables	51,824	44,412
Revenue in Advance	18,444	20,314
Dividends	52,653	47,344
Carrying Amount of Financial Liabilities	588,401	537,070
Note 40B: Net Income and Expense from Financial Assets		
Loans and Receivables		
Interest Revenue	17,276	6,064
Annuity Income	11,249	12,181
Net Gain Loans and Receivables	28,525	18,245
Net Gain from Financial Assets	28,525	18,245

Notes to and forming part of the Financial Statements

	30 June 2010 \$'000	30 June 2009 \$'000
Note 40C: Net Income and Expense from Financial Liabilities		
Financial Liabilities - At Amortised Cost		
Interest Expense	(29,311)	(27,517)
Net Loss Financial Liabilities - At Amortised Cost	(29,311)	(27,517)
Net Loss from Financial Liabilities	(29,311)	(27,517)

Note 40D: Fair Value of Financial Instruments

	Carrying Amount 2010 \$'000	Fair Value 2010 \$'000	Carrying Amount 2009 \$'000	Fair Value 2009 \$'000
Financial Assets				
Cash at Bank	1,254	1,254	4,099	4,099
Cash on Hand	16	16	16	16
Short Term Investments	270,952	270,952	158,551	158,551
Receivables for Goods and Services (Net)	21,280	21,280	18,233	18,233
Finance Lease Receivable	149,526	173,219	159,736	178,467
Total	443,028	466,721	340,635	359,366
Financial Liabilities				
Government Loans	465,480	467,417	425,000	440,284
Trade and Other Payables	51,824	51,824	44,412	44,412
Revenue in Advance	18,444	18,444	20,314	20,314
Dividends	52,653	52,653	47,344	47,344
Total	588,401	590,338	537,070	552,354

The fair value of government loans is calculated by the Australian Office of Financial Management. The loans are valued by calculating the net present value of all future contracted payments at the relevant interest rate.

Notes to and forming part of the Financial Statements

Note 40E: Credit Risk

Credit risk arises from the financial assets of DHA, which comprise cash and cash equivalents and trade and other receivables. Exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

DHA does not hold any credit derivatives to offset its credit exposure.

DHA trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it policy to securitise its trade and other receivables. All customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that DHA's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within DHA and financial instruments are spread amongst a number of financial institutions to minimise the risk of default of counterparties.

The following table illustrates DHA's gross exposure to credit risk, excluding any collateral or credit enhancement

	2010 \$'000	2009 \$'000
Financial Assets		
Cash at Bank	1,254	4,099
Cash on Hand	16	16
Short Term Investments	270,952	158,551
Receivables for Goods and Services (Net)	21,280	18,233
Finance Lease Receivable	149,526	159,736
Total	443,028	340,635
Financial Liabilities		
Government Loans	465,480	425,000
Trade and Other Payables	51,824	44,412
Revenue in Advance	18,444	20,314
Dividends	52,653	47,344
Total	588,401	537,070

Credit quality of financial instruments past due or individually determined as impaired

	Not Past Due Nor Impaired 2010 \$'000	Not Past Due Nor Impaired 2009 \$'000	Past Due or Impaired 2010 \$'000	Past Due or Impaired 2009 \$'000
Financial Assets				
Trade Receivables	21,165	17,963	202	270
Total	21,165	17,963	202	270

Notes to and forming part of the Financial Statements

Note 40E: Credit Risk (continued)

Ageing of financial assets that are past due but not impaired for 2010

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Receivable for Goods and Services (Net)	8	-	-	194	202
Total	8	-	-	194	202

Ageing of financial assets that are past due but not impaired for 2009

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Receivable for Goods and Services (Net)	3	36	-	231	270
Total	3	36	-	231	270

Note 40F: Liquidity Risk

DHA manages liquidity risk by maintaining an appropriate level of marketable securities on hand to meet outgoing commitments in the event of failure to receive any revenue from the normal course of business and ensuring capacity exists to borrow under the Cash Advance Facility based upon annual cash flow forecasts prepared by DHA Finance.

Maturities for financial liabilities 2010

	On demand \$'000	Within 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	> 5 years \$'000	Total \$'000
Financial Liabilities						
Government Loans	-	150,000	130,480	155,000	30,000	465,480
Trade and Other Payables	-	51,824	-	-	-	51,824
Revenue in Advance	-	18,444	-	-	-	18,444
Dividends	-	52,653	-	-	-	52,653
Total	-	272,921	130,480	155,000	30,000	588,401

Maturities for financial liabilities 2009

	On demand \$'000	Within 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	> 5 years \$'000	Total \$'000
Financial Liabilities						
Government Loans	-	135,000	130,000	130,000	30,000	425,000
Trade and Other Payables	-	44,412	-	-	-	44,412
Revenue in Advance	-	20,314	-	-	-	20,314
Dividends	-	47,344	-	-	-	47,344
Total	-	247,070	130,000	130,000	30,000	537,070

Notes to and forming part of the Financial Statements

Note 40G: Market Risk

DHA manages interest rate risk by ensuring that both investments and borrowings mature commensurate with cash flow requirements to minimise repricing risk arising from changes in interest rates. DHA also ensures an appropriate mix of maturities across the yield curve to avoid concentration of maturities on any given date and higher volatility inherent in longer dated investments.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. DHA's exposure to interest rate risk arising from fluctuations in interest rates is nominal due to interest rates applicable to cash, borrowings and finance leases being fixed.

The table below details the interest rate sensitivity analyses of the entity at the reporting date, holding all other variables constant.

Sensitivity analysis of the risk that Defence Housing Australia is exposed to for 2010

	Risk variable	Change in risk variable %	Effect on	
			Profit and loss \$'000	Equity \$'000
Interest Rate Risk		0.75	-	-

Sensitivity analysis of the risk that Defence Housing Australia is exposed to for 2009

	Risk variable	Change in risk variable %	Effect on	
			Profit and loss \$'000	Equity \$'000
Interest Rate Risk	Interest	0.75	-	-

Interest rate sensitivity analysis has been calculated on a "reasonably possible" basis. The rate of 75 basis points was determined using both statistical and non-statistical analyses. The statistical analysis has been based on the cash rate for the past five years issued by the Reserve Bank of Australia (RBA) as the underlying data set. The information was revised and adjusted for reasonableness under the current economic circumstances.

Note 41: Subsequent Events

There have been no events post 30 June 2010 which would have a material impact on the financial statements or operations of the DHA business.

Statutory reporting compliance index

The following table shows compliance with the 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 Act 1997 Schedule 1 – reporting requirements

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
s.1(a)	Report of operations	6–7
s.1(b)	Financial statements	89–134
s.1(c)	Auditor-General's report	90–91
s.2(3)	Directors' resolution on financial statements	92

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	70
s.8(b)	Ministerial responsibility	71
Organisational structure		
s.9	Organisational structure	79
s.9	Location of major activities and facilities	152
Review of operations and future prospects		
s.10(1)(a)(i)	Performance measured against statutory objectives	14,30,44,56,64
s.10(1)(a)(ii)	Performance measured against the Corporate Plan	14,30,44,56,64
s.10(1)(a)(iii)	Performance measured against principal outputs and contributions	14,30,44,56,64
s.10(1)(b)	Factors, events or trends, including risks and opportunities	8–68
s.10(c)	Significant events under s.15 of the CAC Act	8–9
s.10(d)(i)	Principal outputs	14,30,44,56,64
s.10(d)(ii)	Major investing and financing activities	Investing with DHA and Meeting Shareholder Requirements
s.10(d)(iii)	Key financial and non-financial performance indicators	Title page for each chapter
s.10(e)	Significant changes in state of affairs or principal activities	6–7

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
s.10(f)(i)(ii)(iii)	Significant developments since the end of the financial year	Nil
Judicial decisions and reviews by outside bodies		
s.11(a)	Judicial decisions and administrative tribunal decisions	85
s.11(b)	Reports on operations by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	70, 84-85
s.11(b)	Independent Audit Report	90–91
Effects of Ministerial directions		
s.12(1)(a)(i)(ii)(iii)	Directions issued by the Minister, during or since the end of the financial year, or continuing from previous financial years	70
s.12(b)(i)(ii)(iii)	Government policies under section 28 of the CAC Act	70
Disclosure requirements for government business enterprises		
s.13(1)(a)(i)	Significant changes in overall financial structure and condition	Meeting Shareholder Requirements
s.13(1)(a)(ii)	Material events causing financial information not to be indicative of future results	Nil last year
s.13(b)	Dividends paid or recommended	67
s.13(c)(i)(ii)	Community service obligations	84–85

Commonwealth Authorities and Companies (Report of operations) Orders 2005 Division 3 – Specific information

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
Directors		
s.14(1)(a)	Directors details	76–77
s.14(1)(b)	Board meeting attendance	78
Statement on governance		
s.15(1)	Governance practices	72-73
s.15(2)	Board committee details	72-73
s.15(3)(b)	Reviewing board performance	84
s.15(3)(d)	Risk management	84
s.15(3)(e)	Ethical standards	84
Indemnities and insurance premium officers		
s.16(1)(a)(b)	Indemnity for officers or premiums paid	85

Commonwealth Authorities and Companies (Report of operations) Orders 2005 Division 4 – Miscellaneous

SECTION	REPORTING REQUIREMENT	PAGE REFERENCE
Other statutory requirements		
s.18	Commonwealth Disability Strategy	85
s.74 (Occupational Health and Safety (Commonwealth Employment) Act 1991	Occupational health and safety	51
s. 8(1) Freedom of Information Act 1982	Freedom of information	85
s.516A Environment Protection and Biodiversity Conservation Act 1999	Environmental sustainability development	21

As a statutory authority, DHA is not required fulfill 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*, however in an effort to improve transparency this has also been undertaken.



Acronyms
and abbreviations

ACCOM	Accommodation
ACS	Australian Customs Service
ADF	Australian Defence Force
AFR	Application for relocation
ANAO	Australian National Audit Office
APS	Australian Public Service
AWA	Australian workplace agreement
BAC	Board Audit Committee
CA	Collective agreement
COO	Chief Operating Officer
CSIA	Customer Service Institute of Australia
DCO	Defence Community Organisation
DE	Directorate of Entitlements
DFA	Defence Families of Australia
DHA	Defence Housing Australia
DPE	Defence Personnel Executive
DSNSG	Defence Special Needs Support Group
EBIT	Earnings Before Interest and Tax
EEO	Equal employment opportunities
EOI	Expression of interest
FAQs	Frequently asked questions
FCP	Fraud Control Plan
FOI	Freedom of Information
GBE	Government Business Enterprise
HMC	Housing Management Centre
HMI	Housing Management Instructions
IT	Information technology
KPI	Key performance indicator
L&D	Learning and Development

MWD	Member with dependants
MWOD	Member without dependants
MWOD +5	Member without dependants with five years service who can apply for RA approval.
MWD(u)	Member with dependants (unaccompanied)
OH&S	Occupational Health and Safety
PMS	Property Management System
PP&E	Property plant and equipment
PWC	Public Works Committee
RA	Rent Allowance
RAAF	Royal Australian Air Force
ROA	Return on assets
ROE	Return on equity
SCG	Staff Consultative Group
SES	Senior executive service
SLB	Sale and Leaseback
SOP	Standard operating procedure
SVA	Shareholder value added
TMS	Tenancy Management System



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