

# **DEFENCE HOUSING AUTHORITY**

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## OVERVIEW

### MISSION

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

### OVERVIEW

As a result of the *Defence Housing Authority Act 1987* coming into effect, the Defence Housing Authority was established in 1988. The Authority's function is to provide adequate and suitable housing for members of the ADF and their families to meet the operational needs of the ADF and the requirements of Defence.

The Authority is required by legislation to perform its function in accordance with the policies of the Government and in accordance with sound commercial practice. This means that the Authority has a target rate of return and a requirement to pay annual dividends and tax equivalent payments.

At the time of the Authority's establishment, housing provided to Defence personnel was of poor quality and was significantly affecting morale and retention within the ADF. Defence attitudinal data confirms that satisfaction with housing influences members to stay and, generally, satisfaction with the provision of housing is reported as good. From Defence exit survey data, housing issues do not rate highly as a factor that influenced a member's decision to separate.

The Authority provides a coordinated service for ADF members' housing needs. In addition to portfolio management, the Authority undertakes tenancy and property management and the management of re-location services (other than the physical removal of personal effects) provided to ADF personnel. There are currently around 17,900 ADF families being housed by the Defence Housing Authority or through rental allowance arrangements. The Authority also pays rent allowance to 9,300 single ADF members.

The Authority provides homes in all states and territories of Australia for the housing of married ADF personnel. Of these properties, approximately 2,000 are located on Defence bases. The Authority employs around 690 staff located in nine major regional offices and 21 outpost offices, which are in the vicinity of most major military establishments. This enables individual case management for relocating ADF members and their families. The Authority's central management is also supported by a customer support centre.

The Authority lies within the Defence Portfolio. As a Government Business Enterprise it has two shareholder Ministers - the Minister for Defence and the Special Minister of State.

The composition of the Board of Directors of the Authority is governed by legislation. The Board comprises five commercial directors, five representatives of the Department of Defence, a spouse of a member of the ADF and the Managing Director of the Authority. A list of the Board members can be found in the purchaser-provider section in the Defence's Chapter Two - Resourcing on pp. 61-2.

It should be noted that the Authority is not required to complete its corporate plan until 31 May 2005. Financial projections included in these estimates have yet to be finalised and endorsed by the Authority's Board.

The Board has agreed to the implementation of Inventory accounting for the Authority's non-core stock to reflect its intention to sell stock to fund the Capital program. The financial estimates have been prepared on this basis. The main effect of this change is to record Inventory stock at cost, rather than at 'fair value'. An increase in reported profit is anticipated, compared with previous accounting arrangements.

The downturn in the residential property investment market in Sydney, Canberra and some other parts of Australia has required the Authority to revise downwards its expected sales. This has put financing pressure on the Authority to meet its Capital program. The Government has agreed to increase the Authority's borrowing facility to \$550m up from \$425m. Depending on the period of slowness in the residential property market, the Authority may need to request approval for higher borrowings in the future. The Board has requested approval for more flexible borrowing arrangements and for debt to be re-drawable not amortising. The Authority and the Department of Finance and Administration are working together to resolve this matter.

The Authority plans to acquire or construct 1,100 new properties during 2005-06, principally to replace old stock and those properties where the lease is expiring and is not to be renewed. The estimated cost of this program is \$460m. During 2005-06, the Authority plans to sell 623 houses, under sale and leaseback arrangements, and dispose of a further 423 houses which are no longer required.

## **OUTCOME AND OUTPUT INFORMATION**

### **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.

## Output

The provisioning of Defence housing services.

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### Output Performance Indicators

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Quality:	Modern housing.
Quantity:	17,037 houses by 30 June 2005.
Price:	Average rental cost to Defence is estimated to be \$351 per week per house.

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Achievement of planned performance will be reported in the annual report of the Defence Housing Authority and monitored through the governance arrangements for Commonwealth Government Business Enterprises.

## Appropriation

The Authority is a non-budget funded organisation deriving its operating income from charging the Department of Defence for rent and housing-related services.

## Evaluations

Proposed amendments to the Authority's enabling legislation have been provided to the shareholder ministers and the Authority will be seeking support for the proposed changes to be tabled in Parliament.

## Competitive Tendering and Contracting

All contracts for the construction and maintenance of houses are arranged on a competitive basis.

## Purchaser-Provider Arrangements

A Services Agreement between the Authority and Defence came into effect on 1 July 2000 for a period of ten years. The Agreement is based on commercial principles with pricing and risk sharing arrangements, with risk allocated to the party best able to manage the risks. A re-location services agreement between the Authority and Defence was signed on 20 December 2002. This agreement, which is an eight-year agreement, covers the provision of allocation and re-location services. More details on the purchaser-provider arrangements are provided in the Defence's Chapter Two – Resourcing on pp. 61-2.

## **BUDGETED FINANCIAL STATEMENTS**

The following budgeted financial statements for the Defence Housing Authority are presented in this section.

### **Budgeted Statement of Financial Performance**

This statement provides the expected financial results for the Authority by identifying full accrual expenses and revenues, which highlight whether the Authority is operating at a sustainable level in the short to medium-term.

### **Budgeted Statement of Financial Position**

Shows the financial position of the Authority. It enables decision makers to track the management of the Authority's assets and liabilities.

### **Statement of Cash Flows**

Budgeted cash flows, as reflected in the statement of cash flows, provide information on the extent and nature of cash flows by categorising them into expected cash flows from operating activities, investing activities and financing activities.

### **Capital Budget Statement**

Shows all proposed capital expenditure funded from internal sources.

### **Non-Financial Assets - Summary of Movement**

This statement shows only the budget year 2005-06.

**Table 1: Statement of Financial Performance**

	<b>Projected Results 2004-05 \$'000</b>	<b>Budget Estimate 2005-06 \$'000</b>	<b>Forward Estimate 2006-07 \$'000</b>	<b>Forward Estimate 2007-08 \$'000</b>	<b>Forward Estimate 2008-09 \$'000</b>
<b>REVENUE</b>					
<b>Revenue from ordinary activities</b>					
Goods and services	667,800	690,300	803,100	833,800	850,100
Interest	5,400	4,900	1,700	400	300
Net gain from sale of assets	1,943	2,468	2,465	7,164	7,349
<b>Revenues from ordinary activities</b>	<b>675,143</b>	<b>697,668</b>	<b>807,265</b>	<b>841,364</b>	<b>857,749</b>
<b>EXPENSE</b>					
Employees	44,900	45,900	46,900	48,300	49,800
Suppliers	526,343	562,568	663,865	691,864	700,949
Depreciation and amortisation	17,600	14,300	15,700	14,300	11,400
<b>Expenses from ordinary activities (excluding borrowing costs expense)</b>	<b>588,843</b>	<b>622,768</b>	<b>726,465</b>	<b>754,464</b>	<b>762,149</b>
Borrowing costs expense	22,700	26,800	32,500	35,800	35,800
<b>Operating profit before Income Tax from ordinary activities</b>	<b>63,600</b>	<b>48,100</b>	<b>48,300</b>	<b>51,100</b>	<b>59,800</b>
<b>Income Tax Expense</b>	-	16,700	16,700	17,800	20,800
<b>Net surplus or deficit attributable to the Commonwealth</b>	<b>63,600</b>	<b>31,400</b>	<b>31,600</b>	<b>33,300</b>	<b>39,000</b>
Net credit (debit) to asset revaluation reserve	22,166	19,254	18,955	14,536	8,521
<b>Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity</b>	<b>85,766</b>	<b>50,654</b>	<b>50,555</b>	<b>47,836</b>	<b>47,521</b>

**Table 2: Statement of Financial Position**

	<b>Projected Result 2004-05 \$'000</b>	<b>Budget Estimate 2005-06 \$'000</b>	<b>Forward Estimate 2006-07 \$'000</b>	<b>Forward Estimate 2007-08 \$'000</b>	<b>Forward Estimate 2008-09 \$'000</b>
<b>ASSETS</b>					
<b>Financial assets</b>					
Cash	98,896	33,496	7,996	2,296	43,996
Receivables	338,200	335,456	343,700	350,900	360,400
Other	10,990	12,844	12,428	13,031	14,031
<b>Total financial assets</b>	<b>448,086</b>	<b>381,796</b>	<b>364,124</b>	<b>366,227</b>	<b>418,427</b>
<b>Non-financial assets</b>					
Land and buildings	1,124,340	1,061,862	1,004,082	912,482	810,052
Infrastructure, plant and equipment	24,960	27,460	27,960	28,960	31,860
Inventories	383,800	596,100	797,200	909,900	977,000
<b>Total non-financial assets</b>	<b>1,533,100</b>	<b>1,685,422</b>	<b>1,829,242</b>	<b>1,851,342</b>	<b>1,818,912</b>
<b>Total Assets</b>	<b>1,981,186</b>	<b>2,067,218</b>	<b>2,193,366</b>	<b>2,217,569</b>	<b>2,237,339</b>
<b>LIABILITIES</b>					
<b>Interest bearing liabilities</b>					
Loans	375,000	450,000	550,000	550,000	550,000
<b>Provisions</b>					
Employees	8,069	8,289	8,515	8,515	8,747
<b>Payables</b>					
Suppliers	15,076	15,200	15,890	15,420	15,600
Other	76,803	83,837	77,314	73,051	64,988
<b>Total Payables</b>	<b>91,879</b>	<b>99,037</b>	<b>93,204</b>	<b>88,471</b>	<b>80,588</b>
<b>Total liabilities</b>	<b>474,948</b>	<b>557,326</b>	<b>651,719</b>	<b>646,986</b>	<b>639,335</b>
<b>Equity</b>					
Contributed equity	249,148	249,148	249,148	249,148	249,148
Reserves	1,125,345	1,144,599	1,163,554	1,178,090	1,186,611
Total accumulated results	131,745	116,145	128,945	143,345	162,245
<b>Total equity</b>	<b>1,506,238</b>	<b>1,509,892</b>	<b>1,541,647</b>	<b>1,570,583</b>	<b>1,598,004</b>
<b>Total liabilities and equity</b>	<b>1,981,186</b>	<b>2,067,218</b>	<b>2,193,366</b>	<b>2,217,569</b>	<b>2,237,339</b>



**Table 3: Statement of Cash Flows**

	<b>Projected Result 2004-05 \$'000</b>	<b>Budget Estimate 2005-06 \$'000</b>	<b>Forward Estimate 2006-07 \$'000</b>	<b>Forward Estimate 2007-08 \$'000</b>	<b>Forward Estimate 2008-09 \$'000</b>
<b>OPERATING ACTIVITIES</b>					
<b>Cash received</b>					
Goods and services	674,970	702,200	817,500	849,400	861,200
Interest	5,400	4,900	1,700	400	300
<b>Total cash received</b>	<b>680,370</b>	<b>707,100</b>	<b>819,200</b>	<b>849,800</b>	<b>861,500</b>
<b>Cash used</b>					
Taxes Paid	-	20,000	36,700	36,700	37,800
Employees	44,900	45,900	46,900	48,300	49,800
Suppliers	722,370	775,200	872,800	813,800	780,300
Borrowing costs	22,700	26,800	32,500	35,800	35,800
<b>Total cash used</b>	<b>789,970</b>	<b>867,900</b>	<b>988,900</b>	<b>934,600</b>	<b>903,700</b>
<b>Net cash from/(used by) operating activities</b>	<b>-109,600</b>	<b>-160,800</b>	<b>-169,700</b>	<b>-84,800</b>	<b>-42,200</b>
<b>INVESTING ACTIVITIES</b>					
<b>Cash received</b>					
Proceeds from sales of property, plant and equipment	109,600	101,100	101,000	132,000	135,400
<b>Total cash received</b>	<b>109,600</b>	<b>101,100</b>	<b>101,000</b>	<b>132,000</b>	<b>135,400</b>
<b>Cash used</b>					
Purchase of property, plant and equipment	30,600	33,700	38,000	34,000	31,400
<b>Total cash used</b>	<b>30,600</b>	<b>33,700</b>	<b>38,000</b>	<b>34,000</b>	<b>31,400</b>
<b>Net cash from (used by) investing activities</b>	<b>79,000</b>	<b>67,400</b>	<b>63,000</b>	<b>98,000</b>	<b>104,000</b>
<b>FINANCING ACTIVITIES</b>					
<b>Cash received</b>					
Proceeds from loans	75,000	75,000	100,000	-	-
Proceeds from other activities	20,000	-	-	-	-
<b>Total cash received</b>	<b>95,000</b>	<b>75,000</b>	<b>100,000</b>	<b>-</b>	<b>-</b>
<b>Cash used</b>					
Repayment of loans					
Dividends paid	52,600	47,000	18,800	18,900	20,100
Repayment of other activities	20,000	-	-	-	-
<b>Total cash used</b>	<b>72,600</b>	<b>47,000</b>	<b>18,800</b>	<b>18,900</b>	<b>20,100</b>
<b>Net cash from/(used by) financing activities</b>	<b>22,400</b>	<b>28,000</b>	<b>81,200</b>	<b>-18,900</b>	<b>-20,100</b>
<b>Net increase/(decrease) in cash held</b>	<b>-8,200</b>	<b>-65,400</b>	<b>-25,500</b>	<b>-5,700</b>	<b>41,700</b>
Cash at the beginning of the reporting period	107,096	98,896	33,496	7,996	2,296
<b>Cash at the end of the reporting period</b>	<b>98,896</b>	<b>33,496</b>	<b>7,996</b>	<b>2,296</b>	<b>43,996</b>

**Table 4: Capital Budget Statement<sup>(1)</sup>**

	Projecte d Result 2004-05 \$'000	Budget Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
<b>CAPITAL APPROPRIATIONS</b>					
Total loans	-	125,000	-	-	-
<b>Total</b>	-	-	-	-	-
<b>PURCHASE OF NON CURRENT ASSETS</b>					
Funded internally by Departmental resources	30,600	33,700	38,000	34,000	31,400
<b>TOTAL</b>	<b>30,600</b>	<b>158,700</b>	<b>38,000</b>	<b>34,000</b>	<b>31,400</b>

**Note**

- Table 4 shows purchases of property, plant and equipment and includes housing stock intended to be kept as Defence Housing Authority core stock. Sale and Leaseback housing stock is now recorded as Inventory. Cost of acquisition/construction of Inventory is shown in Operating activities in the Statement of Cash Flows. Previously, costs of acquisition/construction of all housing stock, whether intended for sale or to be kept as core stock, was shown as Investing Activities.

**Table 5: Non-Financial Assets – Summary of Movement (Budget Year 2005-06)**

	Land \$'000	Buildings \$'000	Total Land and Buildings \$'000	Other infrastructure plant and equipment \$'000	Total \$'000
<b>Gross Value as at 1 July 2005</b>	675,123	449,217	1,124,340	39,547	1,163,887
Additions	13,035	10,665	23,700	10,000	33,700
Disposals	(54,493)	(44,585)	(99,078)	-	(99,078)
Revaluation increments	7,095	5,805	12,900	-	12,900
Other Movements	-	-	-	-	-
<b>Gross value 30 June 2006</b>	<b>640,760</b>	<b>421,102</b>	<b>1,061,862</b>	<b>49,547</b>	<b>1,111,409</b>
<b>Accumulated Depreciation as at 1 July 2005</b>	-	-	-	14,587	14,587
Charge for the reporting period	-	6,800	6,800	7,500	14,300
Disposals	-	(446)	(446)	-	(446)
Revaluations	-	(6,354)	(6,354)	-	(6,354)
<b>Accumulated Depreciation as at 30 June 2006</b>	-	-	-	22,087	22,087
<b>Net Book Value as at 30 June 2006</b>	<b>640,760</b>	<b>421,102</b>	<b>1,061,862</b>	<b>27,460</b>	<b>1,089,322</b>