

SECTION THREE

DEFENCE HOUSING AUTHORITY

OVERVIEW

Mission

Overview

Outcome and Output Information

BUDGETED FINANCIAL STATEMENTS

Budgeted Income Statement

Budgeted Balance Sheet

Statement of Cash Flows

Capital Budget Statement

Non-Financial Assets - Summary of Movement

OVERVIEW

Mission

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

Overview

The Defence Housing Authority was established in 1988 under the *Defence Housing Authority Act 1987*. 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 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 from 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 Defence's Chapter Two – Resourcing.

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 now confirms that satisfaction with housing influences members with dependants to stay and, generally, members with dependants are very satisfied with the quality of the Authority's houses. From Defence exit survey data, housing issues for members with dependants do not rate highly as a factor that influenced a member's decision to separate.

The Authority provides a coordinated service for members with dependants' housing needs. In addition to portfolio management, the Authority undertakes tenancy and property management and the management of relocation services (other than the physical removal of personal effects), with the latter also being carried out for members without dependants. There are currently over 18,000 ADF families being housed by the Authority in Service residences or through rent allowance arrangements.

The Authority provides homes in all states and territories of Australia for the housing of members with dependants. Of these properties, approximately 2,000 are located on Defence bases. The Authority employs around 695 staff located in eight major regional offices and 18 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 has been relocating and paying rent allowance to ADF members without dependants and in 2006-07 it will make payments to 9,300 members. The Board has resolved to build on those services by providing accommodation for members without dependants. As a start, the Authority has commenced a pilot program for Defence to provide accommodation for members without dependants in Darwin. The pilot program has twelve out of eighteen months to go.

Defence has short listed a consortium involving the Authority to submit a tender for its Single LEAP Project Stage One. Defence is looking for a strategic partner for planning, development, construction, maintenance and operations to provide over 1,500 members without dependants rooms at Holsworthy, Enoggera and RAAF Amberley. The Authority will be an equity partner in the consortium and will provide room booking services. The Authority's consortium will submit its tender to Defence in May 2006.

The slowness in the residential property investment markets in Sydney, Canberra and some other parts of Australia has put financing pressure on the Defence Housing Authority to meet its capital program. The Authority plans to acquire or construct 1,000 new properties during 2006-07, 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 around \$470m. During 2006-07, the Authority's sales program is planned to generate \$400m; this includes sale and leaseback of properties to individual and institutional investors and the disposal of properties that are no longer required.

The Board has approved the use of rent floors and the selective use of increased yields to improve sales performance for its sale and leaseback program for individual investors. Further, the Authority has now signed its first contract with a major financial institution for the sale and leaseback of properties. The Authority is planning further sales on this basis over the next five years.

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 investment markets, the Authority may need to request approval for higher borrowings in the future. The Board has also requested approval for more flexible borrowing arrangements. It is expected that the Authority and the Department of Finance and Administration will sign a new Loan Agreement in May 2006.

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.

Output Performance Indicators	
Quality:	Modern housing.
Quantity:	16,757 houses by 30 June 2007.
Price:	Average rental cost to Defence is estimated to be \$376 per week per house.

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 Defence for rent and housing-related services.

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. The Agreement is currently being renegotiated. A new Services Agreement will be signed by May 2006 and will include simplified pricing and a change in risk sharing between the Authority and Defence.

A Relocation Services Agreement between the Authority and Defence was signed on 20 December 2002. This eight-year agreement covers the provision of allocation and relocation services. More details on the purchaser-provider arrangements are provided in Defence's Chapter Two – Resourcing.

BUDGETED FINANCIAL STATEMENTS

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

Budgeted Income Statement

This statement provides the expected financial results for the Defence Housing Authority by identifying full accrual expenses and revenues.

Budgeted Balance Sheet

Shows the financial position of the Defence Housing 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. Note that the Defence Housing Authority adopted inventories accounting in 2004-05 for those houses acquired/constructed for sale and leaseback. Capital outlays on Sale and Leaseback stock is shown in Operating Activities in the Statement of Cash Flows.

Non-Financial Assets – Summary of Movement

This statement shows only the budget year 2006-07.

Table 1: Budgeted Income Statement

	Projected Results 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
REVENUE					
Revenue from ordinary activities					
Goods and services	768,677	805,217	857,091	913,233	943,880
Interest	10,000	5,359	2,441	2,257	2,085
Net gain from sale of assets	1,237	840	850	715	842
Revenues from ordinary activities	779,914	811,416	860,382	916,205	946,807
EXPENSE					
Employees	45,285	46,870	48,510	50,209	51,965
Suppliers	643,668	671,195	716,702	765,445	794,385
Depreciation and amortisation	12,151	12,789	13,193	13,448	13,552
Expenses from ordinary activities (excluding borrowing costs expense)	701,104	730,854	778,405	829,102	859,902
Borrowing costs expense	24,375	24,150	27,150	29,850	31,650
Operating profit before Income Tax from ordinary activities	54,435	56,412	54,827	57,253	55,255
Income Tax Expense	-	-	-	-	-
Net surplus or deficit attributable to the Commonwealth	54,435	56,412	54,827	57,253	55,255
Net credit (debit) to asset revaluation reserve	6,932	6,554	6,205	5,857	5,480
Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity	61,367	62,966	61,032	63,110	60,735

Table 2: Budgeted Balance Sheet

	Projected Results 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
ASSETS					
Financial assets					
Cash	205,289	45,393	45,008	42,616	40,712
Receivables	147,023	135,196	128,917	126,194	122,965
Accrued Revenue	15,246	15,718	15,708	15,940	16,279
Other Financial Assets	14,911	15,545	16,269	16,525	16,991
Total financial assets	382,469	211,852	205,902	201,275	196,947
Non-financial assets					
Land and buildings	756,965	714,482	678,711	636,614	594,517
Infrastructure, plant and equipment	26,176	29,941	32,953	35,362	37,290
Inventories	768,267	1,029,051	1,120,185	1,204,193	1,264,047
Assets Held for Sale	62,120	62,603	55,892	62,217	62,217
Total non-financial assets	1,613,528	1,836,077	1,887,741	1,938,386	1,958,071
Total Assets	1,995,997	2,047,929	2,093,643	2,139,661	2,155,018
LIABILITIES					
Interest bearing liabilities					
Loans	375,000	430,000	475,000	520,000	535,000
Provisions					
Employees	7,383	7,641	7,909	8,186	8,472
Trade Creditors					
Provision	62,266	65,309	68,047	69,001	70,941
Other Payables & Accrued Expenses	57,004	60,889	63,099	65,239	67,204
Total Payables and Provisions	132,755	140,633	145,832	149,184	153,558
Total liabilities	507,755	570,633	620,832	669,184	688,558
Equity					
Contributed equity	249,148	249,148	249,148	249,148	249,148
Reserves	1,114,134	1,120,688	1,126,893	1,132,750	1,138,230
Total accumulated results	124,960	107,460	96,770	88,579	79,082
Total equity	1,488,242	1,477,296	1,472,811	1,470,477	1,466,460
Total liabilities and equity	1,995,997	2,047,929	2,093,643	2,139,661	2,155,018

Table 3: Statement of Cash Flows

	Projected Results 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	768,677	805,217	857,091	913,233	943,880
Interest	10,000	5,359	2,441	2,257	2,085
GST Input	3,331	3,503	3,663	3,819	3,174
GST Receipts	31,276	32,894	34,396	35,856	29,803
Other	9,838	6,649	3,364	1,529	3,020
Total cash received	823,122	853,622	900,955	956,694	981,962
Cash used					
Employees	45,285	46,870	48,510	50,208	51,965
Payment to Suppliers	792,602	931,983	807,831	849,453	854,242
GST Payments to Suppliers	34,607	36,397	38,059	39,675	32,977
Interest	24,375	24,150	27,150	29,850	31,650
Total cash used	896,869	1,039,400	921,550	969,186	970,834
Net cash from/(used by) operating activities	-73,747	-185,778	-20,596	-12,492	11,128
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	132,410	54,794	50,727	40,544	46,720
Total cash received	132,410	54,794	50,727	40,544	46,720
Cash used					
Purchase of property, plant and equipment	13,100	10,000	10,000	10,000	10,000
Total cash used	13,100	10,000	10,000	10,000	10,000
Net cash from (used by) investing activities	119,310	44,794	40,727	30,544	36,720
FINANCING ACTIVITIES					
Cash received					
Proceeds from loans	-	55,000	45,000	45,000	15,000
Proceeds from other activities	-	-	-	-	-
Total cash received	-	55,000	45,000	45,000	15,000
Cash used					
Repayment of loans	67,060	73,912	65,517	65,444	64,752
Dividends paid	-	-	-	-	-
Repayment of other activities	-	-	-	-	-
Total cash used	67,060	73,912	65,517	65,444	64,752
Net cash from/(used by) financing activities	-67,060	-18,912	-20,517	-20,444	-49,752
Net increase/(decrease) in cash held	-21,497	-159,896	-385	-2,392	-1,904
Cash at the beginning of the reporting period	226,768	205,289	45,393	45,008	42,616
Cash at the end of the reporting period	205,289	45,393	45,008	42,616	40,712

Table 4: Capital Budget Statement⁽¹⁾

	Projected Results 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
CAPITAL APPROPRIATIONS					
Total loans	-	55,000	45,000	45,000	15,000
Total	-	55,000	45,000	45,000	15,000
PURCHASE OF NON CURRENT ASSETS					
Funded internally by Departmental resources	13,100	10,000	10,000	10,000	10,000
TOTAL	13,100	10,000	10,000	10,000	10,000

Note

1. 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 2006-07)

	Land \$'000	Buildings \$'000	Total Land and Buildings \$'000	Other infrastructure plant and equipment \$'000	Total \$'000
Gross Value as at 1 July 2005	441,142	355,323	796,465	34,779	831,244
Additions	600	1,900	2,500	10,600	10,600
Disposals	51,515	42,148	93,663	-	-
Revaluation increments	-	-	-	-	-
Transfers to Assets Held for Sale	-28,287	-23,376	-51,663	-	-42,000
Gross value 30 June 2006	418,514	338,451	756,965	45,379	799,843
Accumulated Depreciation as at 1 July 2005	-	-	-	13,984	13,984
Charge for the reporting period	-	6,932	6,932	5,219	12,151
Disposals	-	-	-	-	-
Revaluations	-	-6,932	-6,932	-	-6,932
Accumulated Depreciation as at 30 June 2006	-	-	-	19,203	19,203
Net Book Value as at 30 June 2006	418,514	338,451	754,464	26,176	783,141