

SECTION THREE
DEFENCE HOUSING
AUSTRALIA

OVERVIEW

BUDGETED FINANCIAL STATEMENTS

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 by the *Defence Housing Authority Act 1987*. This Act was amended in 2006 and the Authority was renamed Defence Housing Australia (DHA). DHA's main 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. DHA has two additional functions: to provide adequate and suitable housing to officers of certain Australian Government agencies, and to provide services ancillary to its function of providing housing and housing-related services.

DHA lies within the Defence Portfolio. As a Government Business Enterprise, it has two shareholder Ministers – the Minister for Defence and the Minister for Finance and Administration.

The composition of the Board of Directors of DHA is governed by legislation. The DHA Board comprises:

- the chairperson;
- four commercial members;
- a current or former APS employee or agency head with a background in Defence, nominated by the Secretary of Defence;
- a current or former member of the Defence Force nominated by the Chief of the Defence Force;
- a person nominated by the Secretary of the Department of Finance and Administration; and
- the Managing Director of DHA.

A list of the Board members can be found in the purchaser-provider section in Defence's Chapter Two- Resourcing.

The 2006 amendments to the Act also established a DHA Advisory Committee. The function of the committee is to provide advice and information about the performance of DHA's functions. The committee comprises:

- one of the DHA Defence Directors as nominated by DHA;
- the National Convenor of Defence Families Australia;

- an appointee of the Chief of Navy;
- an appointee of the Chief of Army;
- an appointee of the Chief of Air Force; and
- a person appointed by DHA.

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

At the time of DHA's establishment, housing provided to Defence personnel varied in quality and affected morale and retention within the ADF. Generally, members with dependants are very satisfied with the quality of DHA's houses. From Defence exit survey data, housing issues for members with dependants do not rate highly as a factor that influence a member's decision to separate.

DHA provides a coordinated service for members with dependants' housing needs. In addition to portfolio management, it undertakes tenancy and property management and the management of relocation services (other than the physical removal of personal effects); the latter is also carried out for members without dependants. There are currently approximately 17,000 ADF families being housed by DHA in service residences or through rent allowance arrangements.

DHA 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. DHA employs around 680 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.

All financial and statistical information in this *Portfolio Budget Statement 2007-08* is extracted from DHA's 2006-07 Corporate Plan. The DHA Board is currently reviewing its business and financial plans and they will be finalised at its May 2007 meeting. Current planning is that capital expenditure over four years on land and houses may be \$400m higher than that declared in this Portfolio Budget Statements. Any changes to financial estimates will be included in DHA's 2007-08 Corporate Plan, due to be forwarded to shareholder Ministers in late May 2007.

DHA funds its capital program through its sale and leaseback program and the sale of investment properties no longer required.

The residential investment markets across Australia have softened, with the exception of Darwin and Perth. This situation has made the generation of capital funds in these areas more difficult.

To improve its sales performance, DHA has introduced rent floors and selective use of increased yields. DHA has also begun selling inventory properties to financial institutions on a sale and leaseback basis and plans to continue marketing to these institutions. To date, DHA has sold approximately \$220m worth of properties to financial institutions with leases and options up to 21 years.

DHA has recently arranged approval for the restoration of its borrowing limit to \$550m. To date, \$340m of the approved limit has been drawn down. Depending on the period of slowness in the residential investment markets and the level of DHA's capital program, it may need to request approval for higher borrowings in the future and this matter will be included in DHA's 2007-08 Corporate Plan.

DHA and the Government have signed a new 10 -year loan agreement, which provides more flexible borrowing arrangements than the previous agreement.

For competitive neutrality reasons, DHA makes tax equivalent dividend payments to the Commonwealth for income tax and state tax equivalents. From 1 July 2007, DHA loses its income tax exempt status and will pay corporate income tax to the Australian Taxation Office, rather than as part of its tax equivalent regime. DHA will continue to pay state tax equivalent dividend payments to the Government.

DHA currently has a dividend policy of remitting 60 per cent of net (after tax equivalent) profit to the Government. In view of the large capital expenditure required to meet Defence provisioning requirements, the level of DHA's ordinary dividend is being discussed with shareholder Ministers. The DHA Board's view on ongoing ordinary dividend policy will be included in DHA's 2007-08 Corporate Plan.

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:	16,280 houses by 30 June 2008.
Price:	Average rental cost to Defence is estimated to be \$400 per week per house.

Achievement of planned performance is reported in the annual report of Defence Housing Australia and monitored through the governance arrangements for Australian Government Business Enterprises.

Appropriation

DHA is a non-budget funded organisation deriving its operating income from charging Defence for rent and housing-related services. In accordance with the changes to the *Defence Housing Authority Act 1987* in 2006, DHA provides property services to Australian Customs Service, which generates approximately \$2m in rent.

Competitive Tendering and Contracting

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

Purchaser-Provider Arrangements

A new Services Agreement between DHA and Defence came into effect on 1 July 2006. 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 Relocation Services Agreement between DHA 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 Defence Housing Australia are presented in this section.

Budgeted Income Statement

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

Budgeted Balance Sheet

Shows the financial position of DHA. It enables decision makers to track the management of DHA'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, investment activities and financing activities.

Capital Budget Statement

Shows all proposed capital expenditure funded from internal sources. Note that DHA 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 1.1: Budgeted Income Statement

	Projected Results 2006-07 \$'000	Budget Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000	Forward Estimate 2010-11 \$'000
REVENUE					
Revenue from ordinary activities					
Goods and services	790,609	853,342	912,957	1,006,355	905,372
Interest	12,135	15,119	15,238	17,257	14,960
Net gain from sale of assets	1,080	1,041	807	854	880
Revenues from ordinary activities	803,824	869,502	929,002	1,024,466	921,212
EXPENSE					
Employees	48,352	50,044	51,796	53,608	55,484
Suppliers	652,653	709,529	758,751	841,966	737,975
Depreciation and amortisation	13,392	14,067	14,714	15,138	15,008
Expenses from ordinary activities (excluding borrowing costs expense)	714,397	773,640	825,261	910,712	808,467
Borrowing costs expense	20,400	20,400	20,400	20,400	20,400
Operating profit before Income Tax from ordinary activities	69,027	75,462	83,341	93,354	92,345
Income Tax Expense	-	-19,000	-23,160	-21,300	-22,000
Net surplus or deficit attributable to the Government	69,027	56,462	60,181	72,054	70,345
Net credit (debit) to asset revaluation reserve	6,907	7,879	8,263	8,478	8,180
Total revenues, expenses and valuation adjustments attributable to the Government and recognised directly in equity	75,934	64,341	68,444	80,532	78,525

Table 1.2: Budgeted Balance Sheet

	Projected Results 2006-07 \$'000	Budget Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000	Forward Estimate 2010-11 \$'000
ASSETS					
Financial assets					
Cash	178,380	209,977	184,322	199,544	139,958
Receivables	138,032	131,249	128,425	126,691	119,876
Accrued Revenue	16,517	17,273	17,696	18,433	18,582
Other Financial Assets	15,909	16,794	17,354	17,723	17,827
Total financial assets	348,838	375,293	347,797	362,391	296,243
Non-financial assets					
Land and buildings	790,802	871,315	895,108	855,878	816,648
Infrastructure, plant and equipment	27,191	28,503	29,552	30,392	31,063
Inventories	720,457	641,061	654,651	704,546	823,276
Assets Held for Sale	43,611	31,894	34,259	35,541	35,541
Total non-financial assets	1,582,061	1,572,773	1,613,570	1,626,357	1,706,528
Total Assets	1,930,899	1,948,066	1,961,367	1,988,748	2,002,771
LIABILITIES					
Interest bearing liabilities					
Loans	340,000	340,000	340,000	340,000	340,000
Provisions					
Employees	8,153	8,438	8,734	9,039	9,356
Trade Creditors	6,317	6,217	6,135	6,272	6,423
Provision	66,668	88,991	85,971	73,617	74,148
Prepayment Received	41,823	43,942	45,996	48,998	47,201
Other Payables & Accrued Expenses	15,674	15,473	15,312	15,583	15,882
Total Payables and Provisions	138,635	163,061	162,148	153,509	153,010
Total liabilities	478,635	503,061	502,148	493,509	493,010
Equity					
Contributed equity	249,148	249,148	249,148	249,148	249,148
Reserves	1,081,491	1,089,369	1,097,633	1,106,111	1,114,290
Total accumulated results	121,625	106,488	112,438	139,980	146,323
Total equity	1,452,264	1,445,005	1,459,219	1,495,239	1,509,761
Total liabilities and equity	1,930,899	1,948,066	1,961,367	1,988,748	2,002,771

Table 1.3: Statement of Cash Flows

	Projected Results 2006-07 \$'000	Budget Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000	Forward Estimate 2010-11 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	790,609	853,342	912,957	1,006,355	905,371
Interest	12,135	15,119	15,238	17,257	14,960
GST	36,397	38,059	39,675	32,977	32,977
Other	3,553	2,440	1,983	2,096	2,170
Total cash received	842,694	908,960	969,853	1,058,685	955,478
Cash used					
Employees	48,352	50,044	51,796	53,608	55,485
Payment to Suppliers	672,629	630,133	772,342	891,861	856,706
GST Payments to Suppliers	36,397	38,059	39,675	32,977	32,977
Tax	-	-	23,800	18,400	21,300
Interest	20,400	20,400	20,400	20,400	20,400
Total cash used	777,778	738,636	908,013	1,017,246	986,868
Net cash from/(used by) operating activities	64,916	170,324	61,840	41,439	-31,390
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	66,722	61,227	45,205	47,341	48,762
Total cash received	66,722	61,227	45,205	47,341	48,762
Cash used					
Purchase of property, plant and equipment	91,897	128,354	74,000	12,258	12,258
Total cash used	91,897	128,354	74,000	12,258	12,258
Net cash from (used by) investing activities	-25,175	-67,127	-28,795	35,083	36,504
FINANCING ACTIVITIES					
Cash received					
Proceeds from loans	-	-	-	-	-
Proceeds from other activities	-	-	-	-	-
Total cash received	-	-	-	-	-
Cash used					
Repayment of loans					
Dividends paid	76,800	71,600	58,700	61,300	64,700
Total cash used	76,800	71,600	58,700	61,300	64,700
Net cash from/(used by) financing activities	-76,800	-71,600	-58,700	-61,300	-64,700
Net increase/(decrease) in cash held	-37,059	31,597	-25,655	15,222	-59,586
Cash at the beginning of the reporting period	215,439	178,380	209,977	184,322	199,544
Cash at the end of the reporting period	178,380	209,977	184,322	199,544	139,958

Table 1.4: Capital Budget Statement⁽¹⁾

	Projected Results 2006-07 \$'000	Budget Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000	Forward Estimate 2010-11 \$'000
CAPITAL APPROPRIATIONS					
Total loans	-	35,000	-	-	-
Total	-	-	-	-	-
PURCHASE OF NON CURRENT ASSETS					
Funded internally by Departmental resources	41,897	128,354	74,000	12,258	12,258
TOTAL	41,897	163,354	74,000	12,258	12,258

Note

- Table 1.4 shows purchases of property, plant and equipment and includes housing stock intended to be kept as Defence Housing Australia 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 1.5: Non-Financial Assets – Summary of Movement (Budget Year 2006-07)⁽¹⁾

	Land \$'000	Buildings \$'000	Total Land and Buildings \$'000	Other infra- structure, plant and equipment \$'000	Total \$'000
Gross Value as at 1 July 2006	439,369	373,687	813,056	35,270	848,326
Additions	45,124	-	45,124	17,628	62,752
Disposals	-7,938	-6,493	-14,431	-	-14,431
Revaluation increments	-	-	-	-	-
Transfers to Assets Held for Sale	-28,632	-24,315	-52,947	-	-52,947
Gross value 30 June 2007	447,923	342,879	790,802	52,898	843,700
Accumulated Depreciation as at 1 July 2006	-	-	-	19,222	19,222
Charge for the reporting period	-	6,907	6,907	6,485	13,392
Disposals	-	-	-	-	-
Revaluations	-	-6,907	-6,907	-	-6,907
Accumulated Depreciation as at 30 June 2007	-	-	-	25,707	25,707
Net Book Value as at 30 June 2007	447,923	342,879	790,802	27,191	817,993

Note

- The Summary of Movement for the Budget Year 2006-07 was also reported in the 2006-07 *Portfolio Additional Estimates Statements*. Data for the 2007-08 Budget Year will be generated by DHA as part of the corporate planning process and will not be available until after the 2007-08 *Portfolio Budget Statements* are printed.

