

The Auditor-General  
Audit Report No.51 2002-03  
Performance Audit

# **Defence Housing and Relocation Services**

**Department of Defence**

© Commonwealth  
of Australia 2003

ISSN 1036-7632

ISBN 0 642 80713 2

**COPYRIGHT INFORMATION**

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,  
Legislative Services,  
AusInfo  
GPO Box 1920  
Canberra ACT 2601

or by email:  
[Cwealthcopyright@finance.gov.au](mailto:Cwealthcopyright@finance.gov.au)



Canberra ACT  
19 June 2003

Dear Mr President  
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Defence in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Defence Housing and Relocation Services*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:  
**The Publications Manager**  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Telephone:** (02) 6203 7505  
**Fax:** (02) 6203 7519  
**Email:** [webmaster@anao.gov.au](mailto:webmaster@anao.gov.au)

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

### Audit Team

Nicola Thatcher  
Danielle Smith

# Contents

---

|  |            |
|--|------------|
| Abbreviations  | 6          |
| <b>Summary</b>   | <b>11</b>  |
| <b>Recommendations</b>                                       | <b>17</b>  |
| <b>Audit Findings and Conclusions</b>                        | <b>19</b>  |
| 1. Introduction  | 21         |
| Defence housing policy                                       | 21         |
| Defence Housing Authority                                    | 24         |
| The audit  | 25         |
| Response to the audit report                                 | 26         |
| Cash subsidy alternative to housing assistance               | 27         |
| Report structure   | 28         |
| 2. Formalising the Service Arrangements                      | 30         |
| Prior to the Services Agreement                              | 30         |
| Developing the Services Agreement                            | 30         |
| Is the Services Agreement a contract?                        | 42         |
| Relocations Services Agreement                               | 43         |
| 3. Strategic and Operational Management of Services          | 48         |
| Defence officers on DHA board                                | 48         |
| Strategic management   | 50         |
| Operational management                                       | 51         |
| Independent review of Services Agreement operation           | 58         |
| 4. Performance Management of Services                        | 59         |
| Aim of the Services Agreement                                | 59         |
| Outstanding issues on signature                              | 59         |
| Housing Management Instructions                              | 61         |
| Continuous Improvement Program                               | 62         |
| Key Performance Indicators                                   | 64         |
| One Stop Shop  | 65         |
| Contract management structure                                | 66         |
| Defence Housing Forecast                                     | 69         |
| Provision and allocation of housing stock                    | 72         |
| Vacancy management reporting                                 | 79         |
| Authority for implementing Defence policy                    | 81         |
| 5. Financial Management of Services                          | 84         |
| Extra charges under the Services Agreement                   | 84         |
| Supplementary Funding  | 87         |
| Cost of Defence housing and relocations assistance           | 91         |
| Rent bill/baseline/valuations/calculations                   | 97         |
| Invoice validation   | 100        |
| <b>Appendices</b>  | <b>103</b> |
| Appendix 1: ANAO's 1994 Report on Defence Housing Assistance | 105        |
| Appendix 2: Previous Performance Audits in Defence           | 106        |
| Index  | 107        |
| Series Titles  | 109        |
| Better Practice Guides                                       | 113        |

# Abbreviations

---

|         |  |
|---------|--|
| ADF     | Australian Defence Force                                       |
| ADFPAY  | Australian Defence Force Pay System                            |
| ANAO    | Australian National Audit Office                               |
| APS     | Australian Public Service                                      |
| CDF     | Chief of the Defence Force                                     |
| CEIs    | Chief Executive's Instructions                                 |
| CIP     | Continuous Improvement Program                                 |
| CSIG    | Corporate Services and Infrastructure Group                    |
| CSM-R   | Client Service Manager-Relocations                             |
| DBF     | Defence Business Forum   |
| DCS     | Defence Corporate Support                                      |
| DDG     | Defence Domiciliary Group                                      |
| DE      | Directorate of Entitlements                                    |
| DEFMIS  | Defence Financial Management Information System                |
| DFA     | Defence Families of Australia                                  |
| DHA     | Defence Housing Authority                                      |
| DHRP    | Directorate of Housing and Removals Policy                     |
| DHF     | Defence Housing Forecast                                       |
| DOC     | Domiciliary Operations Committee                               |
| DPE     | Defence Personnel Executive                                    |
| DRC     | Defence Relocations Centre                                     |
| DRH     | Directorate of Relocations and Housing                         |
| FMA Act | <i>Financial Management and Accountability Act 1997</i>        |
| HDCS    | Head Defence Corporate Services                                |
| HDPE    | Head Defence Personnel Executive                               |
| HMC     | Housing Management Centre                                      |
| HMIs    | Housing Management Instructions                                |
| KPI     | Key Performance Indicator                                      |
| NCGSF   | National Consultative Group of Family Services<br>(became DFA) |

|        |   |
|--------|---|
| NOD    | National Operations Division                          |
| PACMAN | Defence's <i>Pay and Conditions Manual</i>            |
| PBS    | Portfolio Budget Statements                           |
| RA     | Rent Allowance  |
| ROMAN  | Resource and Output Management and Accounting Network |
| SR     | Service Residence                                     |
| TAPS   | Tenant Accommodation and Property Management System   |





# Summary



# Summary

---

## Background

1. Defence has long provided housing assistance for members of the Australian Defence Force (ADF) and their families. In 1988, this function passed to the Defence Housing Authority (DHA), which was established to provide suitable housing to meet Defence's operational needs. DHA became a Government Business Enterprise (GBE) in 1992. In response to the Government's desire that DHA operate more commercially, provision of housing was formalised in 2000, when Defence and DHA signed a Services Agreement valued at \$3.5 billion over 10 years. Some 17 000 ADF members and their families are being housed by DHA or through rental allowance arrangements. Defence remains responsible for setting housing standards and for overall management of housing and relocations assistance for the ADF.
2. The Government considers that providing high-quality accommodation is essential if the ADF is to retain valued members. It has commented positively on DHA, which has done much to improve housing for members and their families. DHA surveys of ADF tenants indicate a high degree of customer satisfaction with their housing.
3. During 2000 and 2001 DHA began providing Defence with housing related services, which were formalised in a second agreement in 2002. These are mainly housing allocation and relocation services; arranging for Defence to make payment of Rent Allowance (RA) to members to use private houses; payment of relocation and temporary accommodation allowances (on a reimbursement basis); and arrangement of end-of-tenancy cleaning of service residences.
4. Total payments to DHA for rent and other services amounted to \$424 million in 2001–02. ADF members contribute to rent paid by Defence to DHA. Contributions amounted to \$98 million in 2001–02. Fringe Benefits Tax paid on Defence's contribution to housing assistance for members was some \$126 million in 2001–02.
5. Defence also provides members with a removals service, under contract, which cost \$98 million in 2001–02. Defence home purchase assistance for members cost \$44 million in 2001–02. Overall, the cost to Defence of housing and related services amounted to some \$594 million in that year, net of member contributions.
6. The objective of the audit was to assess whether Defence's management of its housing and relocation services provided for ADF members meets specified requirements; and to make practical recommendations for more efficient,

effective and economical use of public resources provided for this purpose. It was not an audit of DHA's performance in providing housing and relocation services to Defence.

## **Key audit findings and conclusions**

### **Formalising the service arrangements**

7. During Defence's negotiations for the Services Agreement, the responsible Ministers stated that it must be a properly constructed commercial contract, reflecting in an unambiguous manner the risks and obligations of each party. The Agreement as signed, however, is not such a contract and was not prepared by Defence's legal advisers.

8. Before Defence signed the Agreement, its legal advisers expressed strong reservations about it. The advice was that the Agreement would not meet Defence's objective of putting arrangements with DHA on a more commercial footing; significantly limits the advantages Defence could otherwise obtain from a commercial arrangement; leaves Defence with an unsatisfactory level of risk, with risk-sharing concepts lacking clear responsibility; raises potentially serious risks to Defence's interests on issues such as performance quality and budgetary control; and lacks normal terms about failure to perform, the right to withhold money payable, record-keeping and audit requirements.

9. These aspects of the legal advice were omitted from the summary of the advice that Defence provided to the Ministers who endorsed the Agreement, and to the Secretary of the Department and the Chief of the Defence Force, who signed it. A factor in Defence's acceptance of the Agreement was its view that DHA was part of the same Department. DHA is, in fact, a statutory corporation at arm's length from the Department and with its own statutory obligations.

10. A second agreement with DHA, for other housing services, was signed in 2002 as the Relocations Services Agreement. It is in a more satisfactory form than the 2000 Services Agreement but involves far less monetary value.

### **Strategic and operational management of the services**

11. After the Services Agreement was signed in August 2000, Defence began developing a contract management strategy, with over-arching principles to govern the relationship with DHA. The strategy was not completed or implemented. Proposed key performance indicators and standard operating procedures were not finalised. In 2001, Defence no longer collated service data in the way envisaged in the draft strategy. As well, regional staff roles changed from that of contract management to client liaison.

12. Defence has no single point of contact for DHA on housing and relocation services. This has a direct impact on Defence's ability to check DHA services for acceptability against requirements. Defence relies on DHA to provide operational management information, as Defence's contract management area does not have ready visibility of housing services to members and their contributions, and those in receipt of RA. For example, Defence, lacking adequate data, asked DHA to calculate the level of Defence rent subsidy to see whether it was approaching Defence's 50 per cent target level.

### **Performance management of the services**

13. The documented intentions of the Defence negotiators at the time of signing the Services Agreement indicate that much of the supporting documentation referred to in the Agreement was still to be finalised. Some of the more significant outstanding issues were identified in the Agreement, with specific dates set for completion. These included development of a Continuous Improvement Program; performance indicator details; Heritage Conservation Management Plans; and review of the 'deemed effective' market. More than two years later, these issues have still not been finalised.

14. The Ministers were informed, in 2000, that the Services Agreement commits both parties to work jointly, in the context of an annual Cost Reduction Plan, to reduce costs over time. However, the Agreement does not require such a plan to be prepared. It provides for DHA operations to be put on a commercial basis that will contain, then reduce, the Defence rent bill over time through an agreed program of continuous improvement. There was no evidence of such a program, or of 'cost control programs', also referred to in the Agreement.

15. In 1998, Defence envisaged a 'one stop shop' approach for housing services to be provided by Defence personnel, with DHA's role of landlord distinctly separate. DHA now provides all these services and acts as landlord, Defence's RA delegate and provider of tenant management services (allocations and relocations). DHA receives full market rent and tenant management fees; members pay their set contributions; and Defence is responsible to DHA for the balance of the charges and costs. It is unclear to the ANAO how DHA can provide both landlord services and tenant management without being responsible for the full costs resulting from its decisions. Defence does not have ready visibility of the full costs involved in the provision of housing and relocation services to ADF personnel.

16. Defence's visibility of, and accountability for, decisions relating to housing assistance was raised as an issue in the 1997 Defence Efficiency Review. This issue is of greater concern now that such decisions are made outside Defence. Ensuring that members are satisfied with their housing is an important objective.

However, Defence needs to give more attention to the cost implications of decisions made in the course of doing so. DHA's primary client is Defence (the Commonwealth), not individual ADF members and their families.

17. At the time of audit, Defence had no clear structure for managing both service Agreements. Some regional offices partly adopted a proposed management structure. There was only ad hoc Defence oversight of: the provision of housing stock, particularly timing of acceptance into service; long-term planning of stock requirements in particular regions; and cost implications associated with decisions on property sale and leaseback. These activities also relate to the ongoing management of the annual Defence Housing Forecast (DHF) against DHA's annual Provisioning Schedule and its monthly rent bill.

18. There has been no overall budget or provisioning target fixed for this current financial year, as the DHF is said to be a 'living, breathing document' under ongoing revision. Evidence indicates that delivery of services invoiced in the rent bill is not checked against expected Provisioning Schedule costs. Nor was there evidence that the timing of expected acquisition and disposal of housing stock is checked against the changes ('ons and offs') in the rent bill. Decisions regarding ongoing management of the DHF and the Provisioning Schedule are not regularly documented. Defence does not ensure that DHA provides the classification of housing stock as requested in the DHF. As a result, DHA has provided stock at amenity levels higher than specified, which has had cost implications for Defence.

19. One of the main outcomes that Defence sought from the Services Agreement was that vacant properties, and therefore dead rent (included in the rent bill), would be a thing of the past. The Agreement's provisions for managing vacant housing are not being implemented as Defence intended. Defence records indicate that dead rent cost it some \$20 million in 2001-02.

## **Financial management of the services**

20. When the Services Agreement commenced, extra charges were imposed on the Defence rent bill with a view to making the arrangements more commercial. The Government provided Defence with additional funding to cover the new charges. Defence had some reservations about the new charges, but largely accepted them on the grounds that, since it was fully supplemented, there was no need to take issue with the new charges.

21. The only significant reduction in housing assistance has occurred because Defence has required less housing stock, which has led to a reduction in the rent bill. The overall cost of housing assistance has increased, partly because of increased use of RA for members renting houses on the private market and

greater use of home purchase assistance. Data on overall housing costs are not readily available, but there would be merit in collating data on these costs and managing the services as an overall program. The ANAO notes that Defence's management of housing services is largely reactive—paying rent and related bills as they are received—without actively managing the services as a program to ensure requirements are met and that value is obtained.

22. ANAO's recalculation of the initial charges imposed on transition to the Services Agreement highlighted an internal inconsistency within the Agreement that results in Defence paying more than required, which then incurs an additional 10 per cent portfolio management fee. The ANAO understands that the issue is under review.

## Overall conclusion

23. ADF members and their families continue to acknowledge the quality of the housing they receive under Defence housing arrangements. Defence aims to maintain a high satisfaction rate among members and their families in respect of those arrangements. It should also aim to monitor and contain the associated costs. With a focus on member satisfaction, the standard of housing provided exceeds Defence's specified requirement. Defence has largely accepted this outcome, despite the cost implications. Taken as a whole, housing and related services constitute a program of rising costs, which amounted to some \$594 million in 2001–02.

24. Most of the cost arises from the Services Agreement signed in 2000. There are deficiencies in the Agreement from Defence's perspective. The ANAO considers that it would have been preferable had Defence done more to meet the Ministers' request for a properly constructed commercial contract and to act on legal advice that the Agreement would not adequately protect Defence's interests. The Ministers and the Defence heads should have been informed of the extent of the legal advice before they were asked to endorse and sign the Agreement. Defence needs to appreciate that DHA is not part of the Department, but a GBE that provides housing services on a commercial basis and as an entirely separate and independent entity.

25. This underlines a need for Defence to endeavour to manage the arrangements strategically and ensure that services both meet requirements and provide value for money. Defence should also seek to implement the Service Agreement's provisions for programs of continuous improvement and cost control, which, although not clearly expressed, offer the prospect of better value for money for the taxpayer.

## **Defence response**

26. In its general comments on the proposed report, Defence said that it identifies a number of areas where improvements may be made. Identified areas of deficiency are acknowledged and, in general, are already subject to planned reform. Noting that housing is an ongoing retention issue, Defence acknowledged its responsibility to better monitor and contain costs associated with housing. A project is currently being planned to do this over the 2003–04 financial year and includes completion of those activities identified in the report.

27. Defence agreed, or agreed with qualification, to the ANAO's five recommendations.



# Recommendations

---

Set out below are the ANAO's recommendations, with report paragraph references and an indication of the Defence response. The recommendations are discussed at the relevant parts of this report.

**Recommendation No.1**  
**Para. 3.9**

The ANAO *recommends* that Defence consider reviewing, and providing advice to the Government on, the provision in the *Defence Housing Authority Act 1987* for Defence officers to be appointed to the DHA board, in view of the potential conflict of interest that such appointments create for those officers.

*Defence response:* This recommendation is agreed.

**Recommendation No.2**  
**Para. 4.26**

The ANAO *recommends* that Defence endeavour to complete action on those significant transitional issues that have been outstanding since the Services Agreement was signed in 2000, to help realise the benefits envisaged by the Agreement.

*Defence response:* This recommendation is agreed.

**Recommendation No.3**  
**Para. 4.62**

The ANAO *recommends* that Defence:

- a) fulfil its obligations regarding submission of its annual housing forecast under the Services Agreement, to improve overall housing management and avoid liability for additional costs; and
- b) document its ongoing decisions that modify its annual housing forecast, in the interests of visibility of, and accountability for, those decisions.

*Defence response:* This recommendation is agreed.

**Recommendation No.4**  
**Para. 4.113**

The ANAO *recommends* that Defence develop a means of obtaining overall visibility of housing assistance financial decisions, including those made by DHA on its behalf, to enable timely action on emerging policy and budgetary issues.

*Defence response:* This recommendation is agreed with qualification.

**Recommendation No.5** The ANAO *recommends* that, to improve processes for payment of DHA's monthly invoices, Defence:

**Para. 5.73**

- a) adjust, in consultation with DHA, the rent bill format to facilitate checking of particulars in the bill; and
- b) develop a system to validate invoices appropriately, including the addition or removal of properties from the rent bill, to ensure timely action in accordance with the agreed housing forecast and corresponding Provisioning Schedule.

*Defence response:* This recommendation is agreed.

# **Audit Findings and Conclusions**



# 1. Introduction

---

*This chapter provides an overview of Defence housing policy, including the role of the Defence Housing Authority. It also sets out audit objectives and outlines the report structure.*

## Defence housing policy

**1.1** Defence<sup>1</sup> provides housing assistance for members of the Australian Defence Force (ADF) and their families. In 1988, part of this function passed to the DHA, which was established for this purpose. Since 1 July 2000, DHA has provided houses under a formal services agreement with Defence. Defence remains responsible for setting housing standards (in Defence Personnel Executive—DPE) and for overall management of housing and relocations assistance for the ADF (in Corporate Services and Infrastructure Division—CSIG).

**1.2** The purpose of Defence housing assistance is to support the operational capability of the ADF by enabling members and their families to be posted wherever military ‘units’ are located. ADF units are located across Australia. Requirements to keep units operationally staffed lead to members being relocated frequently.<sup>2</sup> Member preferences may be sought as to the location, but these are often subordinate to the needs of their particular Service.

**1.3** Defence states that it requires access to a stock of houses to maintain the operational capability of units and to minimise, as far as possible, family disruption associated with compulsory relocation.

**1.4** The Defence housing assistance program is subject to government policy goals in place since 1985. The basic goal is to provide housing assistance required for effective Defence operations, which, is equitable, efficient and cost-effective. Two sub-goals are to:

- a) provide adequate accommodation for personnel required in the course of duty to reside in a location where suitable alternative accommodation is not available, or required for essential operational reasons to reside at ADF or Australian Public Service premises; and
- b) minimise financial disabilities, due to inter-regional differences in housing cost, for personnel required to relocate frequently.

---

<sup>1</sup> ‘Defence’ comprises the Department of Defence and the Australian Defence Force (ADF). The ADF comprises the three Services (Navy, Army and Air Force) and has some 51 500 full-time members.

<sup>2</sup> The standard posting period is three years and, wherever possible, ADF members stay at the same geographic location for two successive postings. This issue was addressed in Audit Report No.41 2000–01 *Causes and Consequences of Personnel Postings in the Australian Defence Force*.

1.5 In response to these policy goals, ADF housing assistance is made available to members with dependants in either of two ways: housing assistance or home purchase assistance.

1.6 Housing assistance is provided to ensure that members who do not have a suitable dwelling available in their posting locality are not disadvantaged as a result of relocation (as a required condition of employment). Assistance is provided by way of a Service Residence (SR)<sup>3</sup> or, if no 'suitable' SR<sup>4</sup> is available, by way of Rent Allowance (RA)<sup>5</sup>. Members are entitled to a SR of a particular category, according to their rank.

1.7 Defence requirements specify that all SRs are to have basic amenities such as a lounge room; dining or meals area; kitchen; laundry; bathroom and separate toilet; bedrooms with a wardrobe, space for a bed and a desk, chair or chest of drawers; an area for secure storage; and covered single car accommodation. SRs are classified according to the additional amenities in the SR (see Table 1.1).

**Table 1.1**  
**Group rank entitlement categories of Service Residence**

| Classification of service residence | Rank*  | Number of additional functional amenities |
|-------------------------------------|--|---|
| A                                   | Corporal or lower, trainee   | Nil                                       |
| B1                                  | Sergeant, Staff Sergeant   | 1   |
| B2                                  | Warrant Officer Class 1, Warrant Officer Class 2, Second Lieutenant, Lieutenant, Captain | 2   |
| C                                   | Major, Lieutenant Colonel  | 3   |
| D                                   | Colonel, Brigadier   | 4   |
| E                                   | Major General or higher  | 5   |

\* The ranks noted are those for Army (or equivalent in Navy and Air Force).

Source: *Defence's Pay and Conditions Manual*

Note: Certain dwellings are covered by the 'Defence Choice Housing' policy. Classification and allocation are broadly in accordance with group rank entitlement bandings only. Actual classification is based on market rent considerations, and certain minimum amenities.

<sup>3</sup> In this situation, Defence pays rent to DHA for the member to occupy a house owned or leased by DHA, and Defence deducts a set contribution from the member's pay regardless of actual rental cost.

<sup>4</sup> Defence's *Pay and Conditions Manual* explains that a 'suitable' SR is one which satisfies the requirements of rank, dependants and proximity to the member's workplace. (Chapter 7—Part 1—34).

<sup>5</sup> Under RA, Defence provides a member with cash assistance up to a set rental ceiling (minus the member's contribution) so that the member can rent suitable housing from the private rental market. RA is to be provided only when there are no suitable SRs available. Members cannot choose to have RA.

**1.8** Defence's *Pay and Conditions Manual* describes an additional functional amenity as any area, other than the basic amenities, that has a functional purpose. For example a study, en-suite or third bathroom, rumpus room, family room or sunroom would be an additional functional amenity, but a hallway would not.

**1.9** Member contributions are set at levels that recognise the disabilities related to housing and accommodation that arise as a result of ADF service.<sup>6</sup> The approach is to ensure that members are not disadvantaged in relation to the general community by being required to move frequently. Nationally, member contributions are the same for type and standard of accommodation occupied, thus isolating members from regional cost variations. Defence's intention is that members' contributions should be 50 per cent of market rent by 2004. Contributions are adjusted annually by the DHA rental market increase, and an additional 2 per cent to meet the 50 per cent target.

**1.10** During 2000 and 2001, DHA began providing Defence with related services, which were formalised in a second agreement in 2002. These are mainly housing allocation and relocation services; arranging for Defence to make payment of RA to members to use private houses; payment of relocation and temporary accommodation allowances (on a reimbursement basis); and arrangement of end-of-tenancy cleaning of service residences.

**1.11** Total payments to DHA for rent and other services amounted to \$424 million in 2001–02. ADF members contribute to rent paid by Defence to DHA. Contributions amounted to \$98 million in 2001–02. Fringe Benefits Tax paid on Defence's contribution to housing assistance for members is estimated to have cost Defence \$126 million in 2001–02.

**1.12** Separately from its arrangements with DHA, Defence provides members with a removals service. This is done under contract, and cost \$98 million in 2001–02.

**1.13** Defence provides home purchase assistance to help members purchase their own homes in a posting locality. Assistance is provided on the basis of the mutual benefit to the member and to Defence of members living in their own homes, close to their place of work. Home purchase assistance is available in several ways, according to individual circumstances. It may be in the form of a lump sum up front payment, reimbursement of certain expenses or a subsidised home loan administered by DHA (at the time of audit). This type of assistance cost \$44 million in 2001–02 but is not examined in this report.

**1.14** Defence also provides living-in accommodation (previously called 'barracks') for members without dependants. It is not examined in this report.<sup>7</sup>

<sup>6</sup> Member contributions are specified in Schedule 9 to *Defence Determination 2000/1*.

<sup>7</sup> Living-in accommodation was examined in Audit Report No.25 1994–95 *Australian Defence Force Living-in Accommodation*.

## Defence Housing Authority

1.15 DHA is a statutory corporation in the Defence Portfolio. It was established by the *Defence Housing Authority Act 1987* to provide adequate and suitable housing for members of the ADF and their families and other persons in order to meet ADF operational needs and Defence requirements. The Act requires DHA to endeavour to perform its functions in a manner that accords with Commonwealth policies and sound commercial practice.<sup>8</sup>

1.16 DHA is responsible to two shareholder Ministers: the Minister for Defence, through the Minister for Veterans' Affairs and Minister Assisting the Minister for Defence; and the Minister for Finance and Administration, who has delegated the responsibility to the Special Minister of State.<sup>9</sup>

1.17 DHA became a Government Business Enterprise (GBE) in 1992 and is subject to the *Commonwealth Authorities and Companies Act 1997*. At May 2003, it had around 800 employees, who were located at its head office in Canberra and at regional centres across Australia. Around 17 000 ADF families are being housed by DHA or through rental allowance arrangements.

1.18 DHA has done much to improve housing for ADF members and their families. The Government has commented positively on DHA and has placed great importance on the provision of quality housing for Defence members and their families.<sup>10</sup> An ANAO report in 2000 noted that ADF members interviewed were mostly satisfied with the quality of housing provided to them. Some commented that housing was far better than in the past.<sup>11</sup> Results of DHA satisfaction surveys are discussed in paragraph 3.42. Over the next three years, DHA will embark on a capital investment program of more than \$1 billion to replace and improve houses for married members of the ADF.<sup>12</sup>

---

<sup>8</sup> *Defence Housing Authority Act 1987*, sections 5 and 6.

<sup>9</sup> Defence Housing Authority, *Annual Report 2001–2002*, p. 6.

<sup>10</sup> 'Over the past 10 years, DHA has completely turned around the quality of housing. ... Housing has now become one of the positives of Service life rather than the negative it once was. ... wherever I go, defence families tell me how important that homes provided by DHA are to their family and lifestyle. In reply I never tire of telling defence families that this Government recognises the vital role DHA plays in their lives and how that role will continue well into the future.' The Hon. Bronwyn Bishop MP, then Minister for Defence Industry, Science and Personnel, address on the occasion of DHA's 10th anniversary, Mural Hall, Parliament House, 29 June 1998.

'The Federal Government has placed great importance on the provision of quality housing for Defence members and their families. ... DHA plays a pivotal role in providing housing and housing services to these people.' The Hon. Ian MacFarlane MP, Minister for Industry, Tourism and Resources, *The Voice*, 22 February 2002.

'Providing high quality accommodation is essential if we are to keep valued members of the Australian Defence Force.' The Hon. Danna Vale MP, Minister Assisting the Minister for Defence, media release MINASSIST 11/03, 2 April 2003.

<sup>11</sup> Audit Report No.35 1999–2000 *Retention of Military Personnel*, p. 86.

<sup>12</sup> The Hon. Danna Vale MP, Minister Assisting the Minister for Defence, Media Release, 13 May 2003, *Budget Delivers More Support for ADF Personnel and Families*.



## DHA board members

**1.19** Under the DHA Act, the DHA board has 12 members. Of those, four are members of the ADF and one is a civilian official in Defence. The four ADF members were, at the time of audit, Head of Defence Personnel Executive and Deputy Chief of each of the three Services. The civilian member was First Assistant Secretary Capability, Investment and Resources.

**1.20** When a new person is appointed to one of those five Defence positions on the board, it is the responsibility of the relevant staff officer(s) to advise the member of his/her roles and responsibilities in relation to Defence and DHA. In Defence, there is no official, consistent guidance on this. The Defence Shareholder Advisory Unit, located in the Chief Finance Officer's Group, is developing guidance for Defence members of the board. Responsibilities of Defence officers on the DHA board are discussed in Chapter 3.

## The audit

**1.21** The ANAO previously examined ADF housing assistance in 1994. Key points from that audit report are at Appendix 1 of this report. The report made 37 recommendations, which Defence largely agreed to.

**1.22** The objective of the current audit was to assess whether Defence's management of its housing and relocation service provided for ADF members meets specified requirements; and to make practical recommendations for more efficient, effective and economical use of public resources provided for this purpose.

**1.23** The audit scope included Defence's:

- management of services in accordance with Defence housing policy, as well as the interface between DPE and CSIG staff;
- development and management of the annual Defence Housing Forecast and Defence's response to DHA's corresponding Provisioning Schedule; and
- overall management of Defence housing assistance functions.

**1.24** A focus of the audit was on Defence's preparation for, and management of, the \$3.5 billion 10-year Services Agreement between Defence and DHA, which was signed in 2000. It is one of Defence's largest service delivery arrangements.

**1.25** The audit was conducted using audit criteria relating to the following Defence operations:

- development of the Services Agreement commensurate with an arrangement of this size and with appropriate expert input;

- management of the Services Agreement in accordance with government policy, legislative requirements and contract intentions, and transition from pre to post Agreement in accordance with the Agreement and any other requirements;
- Defence operations to define housing requirements, ensure that services meet requirements and pay only for services provided;
- collection and assessment of members' contributions against the target level of subsidy; and
- transparency and accountability of costs in providing housing and relocation services to ADF members, and reduction of Defence housing costs as expected in Services Agreement negotiations.

**1.26** The audit began in July 2002. It encompassed fieldwork at Defence's national office in Canberra; Gaza Ridge Barracks, North Bandiana; Defence Plaza, Melbourne; Defence Plaza, Sydney; RAAF Base, Williamtown; Gallipoli Barracks, Enoggera; Lavarack Barracks, Townsville; Defence Community Organisation's office, Cairns; and Robertson Barracks, Darwin.

**1.27** The ANAO also discussed issues with DHA staff in Canberra and Ipswich. These discussions helped the ANAO gain an understanding of the application of Defence housing policy at the service-delivery level and the development and management of the Agreement from DHA's perspective. However, this was not an audit of DHA or its activities.

**1.28** The ANAO set out issues concerning preparation of the 2000 Services Agreement in a letter to Defence in October 2002. The ANAO sought advice from the Australian Government Solicitor's Office and Minter Ellison, selected from the ANAO's panel of legal advisers, on aspects of the Agreement. A discussion paper on all audit issues was provided to Defence in February 2003. The proposed report of the audit was provided to Defence, and copies provided to DHA and the Department of Finance and Administration, in April. The report was completed after considering their comments. The audit was conducted in conformance with ANAO Auditing Standards and cost \$275 000.

## Response to the audit report

**1.29** In its general comments on the proposed report, Defence said that it identifies a number of areas where improvements may be made. Identified areas of deficiency are acknowledged and, in general, are already subject to planned reform. Noting that housing is an ongoing retention issue, Defence acknowledged its responsibility to better monitor and contain costs associated with housing. A project is currently being planned to do this over the 2003–04

financial year and includes completion of those activities identified in the report. Defence further stated:

The report notes that Defence's contract management strategy had not been completed or implemented and that the contract management area does not have ready visibility of housing services to members and their contributions and those in receipt of Rent Allowance. However, it should be noted that staff resources required to complete and implement the draft contract management plan would have had to compete with those required to negotiate the Relocation Services Agreement, to overcome the difficulties experienced by DHA in delivering these services and to promote the view that DHA as a commercial Government Business Enterprise is not and should not be treated simply as part of the Department. The ANAO recognises in its draft Report that the Relocations Services Agreement signed in December 2002 is a commercial contract 'and includes provisions of a kind omitted from the Services Agreement'.

**1.30** DHA, in its general comments on the proposed report, said that the report is not complete from a whole of Government viewpoint because it does not deal with DHA's role or returns to Government.

### *ANAO comment*

**1.31** The audit concerned only Defence management of housing and relocation arrangements. It was not an audit of DHA. DHA is a GBE. The *Auditor-General Act 1997* (section 16) states that the ANAO may conduct a performance audit of a GBE only if the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit requests the audit. A 'whole of Government' performance audit of Defence housing arrangements could include examination of DHA's operations and cost structure; its \$1 billion capital investment program; deployment of its 800 staff; and its returns to Government. However, the scope of such an exercise could involve comment on issues surrounding the framework of the arrangement which, as Government policy, would be outside the mandate of the ANAO.

## **Cash subsidy alternative to housing assistance**

**1.32** The ANAO's 1994 report on Defence housing noted that proposals for a cash subsidy to ADF members to replace housing rental assistance had been considered from time to time. The ANAO commented that a cash subsidy option had advantages in terms of simplicity and freedom of choice but that it could have significant implications for DHA, and tax considerations would be an important element. The ANAO recommended further consideration of the proposal.<sup>13</sup>

<sup>13</sup> Audit Report No.13 1994–95 *Australian Defence Force Housing Assistance* p. 16.

1.33 The Glenn Report (1995) discussed the ‘cashing out’ proposal and recommended that alternatives for the provision of accommodation assistance and subsidies be pursued.<sup>14</sup> The Defence Efficiency Review (1997) considered housing and accommodation but not a cash subsidy option. Defence considered the option again in 1999 and decided that ADF housing assistance arrangements were generally sound, with some scope for modifications to improve equity and cost-effectiveness; and that full cashing out of housing assistance arrangements to members would not be pursued because it would deliver inequitable outcomes to individuals and not support defence capability.<sup>15</sup>

1.34 The Nunn Review (2001) commented that the existing Defence housing assistance approach is paternalistic and gives little latitude for ADF members to make their own choices. It recommended a cash Accommodation Assistance Allowance, based on regional housing costs and family structures, to replace the rental assistance scheme.<sup>16</sup>

1.35 In commenting on the Nunn Review, the Government said it recognised that existing housing arrangements for members with dependants, administered by DHA, continue to work well and do not need to be changed and that it had decided to set aside the Review’s recommendations concerning accommodation.<sup>17</sup>

1.36 The cash subsidy option is not considered in this audit report.

## Report structure

1.37 The report is structured as follows:

Chapter 1—an overview of Defence housing policy, including the role of the DHA and sets out the audit objective.

Chapter 2—discusses development of the 2000 Services Agreement and whether it is a contract; and development of the 2002 Relocations Services Agreement.

Chapter 3—discusses Defence representation on the DHA board; and Defence’s strategic management of the two Agreements with DHA, including broad governance structures and operational management arrangements.

---

<sup>14</sup> *Serving Australia—The Australian Defence Force in the Twenty First Century* (‘Glenn Report’), 1995, pp. 132 and 140.

<sup>15</sup> Answer to Parliamentary Question No.1712 *Australian Defence Force: Glenn Report* HR Hansard 8 November 2000 p. 22541.

<sup>16</sup> *Review of Australian Defence Force Remuneration 2001* (‘Nunn Review’) Chapter 8.

<sup>17</sup> Media Release 5 October 2001 MIN 404/01, The Hon. Bruce Scott MP, Minister Assisting the Minister for Defence, *ADF to be consulted on Remuneration Review*.

Chapter 4—examines Defence processes for managing the performance of housing and relocation services, including the status of issues that were outstanding at the time of contract signature, and the implementation of Defence policy.

Chapter 5—outlines Defence’s financial management of housing and relocation services; and discusses overall costs of housing and related services and issues concerning funding calculations, invoice processes and validation of payments.

## 2. Formalising the Service Arrangements

---

*This chapter discusses development of the 2000 Services Agreement and whether it is a contract; development of the 2002 Relocations Services Agreement; and responsibilities of Defence officers on the DHA board.*

### Prior to the Services Agreement

**2.1** A key point and recommendation in the ANAO's 1994 report on Defence housing was that Defence develop, without further delay, a formal agreement with DHA, given that it was six years since DHA was established and that such a document may have avoided some areas of ongoing dispute with significant cost implications for Defence.<sup>18</sup> The recommendation was agreed but there was little progress until 1999, when relevant Ministers pressed Defence and DHA to make such an agreement.

**2.2** Ministers reviewed the ownership of DHA in 1998. They concluded that DHA should remain in Government ownership as a GBE but that some restructuring would facilitate optimal adoption of commercial practices. Ministers decided in 1999 that the application of competitive neutrality to DHA, and DHA's restructuring, could be addressed as part of DHA's negotiations with Defence on a proposed services agreement.

**2.3** Defence accepted that, with DHA's implementation of competitive neutrality principles, a more formal 10-year written agreement with Defence should replace the understanding between the two parties for provision of housing services. The agreement was developed in 1999 and 2000 and signed in August 2000.<sup>19</sup> It documents arrangements between Defence (as purchaser) and DHA (as provider) to satisfy Defence's operational and business requirements for housing, accommodation and related services.

### Developing the Services Agreement

**2.4** DHA shareholder Ministers (see paragraph 1.16) requested, in 1999, that the proposed agreement between Defence and DHA describe the levels of DHA housing, property management and other agreed services. The agreement was also to cover:

---

<sup>18</sup> See Appendix 1 to this report.

<sup>19</sup> Titled *Services Agreement for Housing and Related Requirements*.

- allocation of risk associated with commercial and service delivery operations;
- transparency of costs and pricing of services, including a balance between commercial pricing and recognition of the advantages for DHA from a single, secure customer;
- management and ownership issues, such as titles, heritage housing and on-base housing; and
- processes of consultation and variation to the agreement.<sup>20</sup>

2.5 The Government provided Defence with a funding ceiling within which it was to negotiate a commercial agreement with DHA. The cost estimate was based on estimates and funding programmed at the time to meet the Defence Housing Requirement (about \$350 million per annum). It included additional funding from the Government to offset additional costs estimated to flow from DHA's move to a more commercial structure from 1 July 2000 (expected to be \$69 million per annum for four years). It is understood that, at the end of four years, Defence and the Department of Finance and Administration will assess the need for any further supplementation. (See paragraph 5.15.)

2.6 By February 2000, it was agreed that the agreement must be strategic in orientation and allow considerable flexibility in operation. It must also be binding on the parties. In March 2000, the then Secretary of the Department of Defence and Chief of the Defence Force (CDF) were briefed on the 'near complete' Services Agreement prepared by DHA. They were informed that, although DHA was wholly Government owned, it was necessary for Defence to ensure that it drives a 'good deal' through the agreement, ensuring Defence gets value for money and that there is pressure on DHA to perform.

2.7 The Secretary and CDF expressed concern about the Agreement's status. As a result, a senior officer was nominated 'Contract Authority' and a Defence cross-Group team was appointed to assist in reaching an acceptable outcome for Defence.

2.8 The team considered the optimal solution for Defence was to have a formal contract, with a clearly defined Statement of Requirement (SOR), measurable performance indicators, a complementary and manageable pricing schedule, and a commitment by the provider to meet the SOR to the standards set, at a guaranteed price. A draft contract was ready by April 2000, with terms prepared by Defence's legal advisers and a SOR and pricing schedule prepared by Defence Corporate Services staff.

---

<sup>20</sup> Letter to Chairman of DHA from Minister for Finance and Administration and Minister Assisting the Minister for Defence, 7 June 1999.

**2.9** Meanwhile, as a 'fall-back', the team continued work on the draft Agreement to address specific concerns expressed by the Secretary and CDF.

**2.10** In April 2000, the Department of Finance and Administration provided to Defence a draft letter to be sent to DHA by shareholder Ministers, stating:

We are aware that further effort is required to finalise the Services Agreement. While it is important that the Services Agreement is finalised quickly, the Agreement must be a properly constructed commercial contract, reflecting in an unambiguous manner the risks and obligations of each party.

**2.11** In May 2000, the draft contract was submitted to DHA, which indicated that it would not accept it. DHA was 'disappointed' at what it perceived as Defence's late departure from the previously agreed way ahead (the agreement), and expressed concern about pursuing the 'contract route'. DHA's view was that a commercial contract was unnecessary, as DHA is subject to legislation.<sup>21</sup> The DHA board also rejected the contract on the basis of standard terms that it was unwilling to accept. Defence noted that DHA rejected usually non-contentious provisions such as those regarding quality of service, obligations under statute, and termination for default.

**2.12** A Defence officer pointed out to senior managers that, to accept DHA's position on all such issues, would leave Defence exposed to risk and that 'the Services Agreement favoured by DHA was not sufficiently comprehensive for, nor does it adequately address the risks inherent in, a procurement of this nature and value'.<sup>22</sup>

**2.13** On 6 June, the Minister for Finance and Administration, on behalf of both shareholder Ministers, signed the letter referred to at paragraph 2.10.

## **Submission to the Secretary**

**2.14** After DHA rejected the draft contract, Defence senior managers indicated that they did not consider a commercial contract was required and that an agreement would satisfy Ministers' requirements. The Contract Authority, on 31 May, put a submission to the Secretary on proposals for an agreement (the draft Services Agreement) between Defence and DHA. The submission made the following points:

- the proposed method of procurement was to restrict the source of supply to DHA (sole-source), as DHA was established by Act for this express purpose and Defence had been broadly satisfied with its service;

---

<sup>21</sup> The ANAO assumes this refers to the DHA Act.

<sup>22</sup> The ANAO understands that the officer is not referring to the risk sharing arrangements in the Agreement, as requested by Ministers (see paragraph 2.4), but the risk of entering into a 10-year agreement without suitable contract clauses to protect Defence's interests.



- given DHA's extensive experience, and consequent competitive advantage over any other potential tenderer, no better value for money would be achieved through a wider tender process;<sup>23</sup>
- the Agreement would ensure that Defence requirements for housing and related services continue to be met at a reasonable price and would remove many legal and contractual uncertainties of the informal relationship; and
- provision of the services by DHA represented an efficient and effective use of public moneys in a whole-of-government context.

**2.15** The submission was put to the head of Defence's Resources and Financial Programs (RFP) Division, who gave the proposal 'financial concurrence' and, in doing so, noted as follows:

This is agreed, as it represents our current funding expectations but we should seek to reduce costs through improved DHA performance and expected reductions from any reduced personnel numbers over time.

**2.16** The submission made a recommendation to restrict to DHA the source of supply of housing and associated services and to spend up to \$3.5 billion (December 1999 prices) over 10 years for those services. The Secretary approved the recommendation on 13 June 2000, thus giving 'procurement' and 'proposal' approval, and indicated his agreement with the 'financial concurrence' note mentioned above. Additional services to be provided by DHA, such as end-of-tenancy cleaning and housing allocation, were to be the subject of separate submissions.

**2.17** The ANAO notes that the DHA Act requires DHA to endeavour to operate commercially. This was reinforced by DHA's establishment as a GBE in 1992 and its move to a more commercial structure in 2000 to make it comparable with a private-sector business. In these circumstances, Defence, as DHA's main customer, should also act in a business-like manner, recognising DHA's commercial imperatives and that DHA is not part of Defence. The ANAO considers that it would have been preferable had Defence done more to apply the Government's (then) core procurement principles of value for money (the Commonwealth is unable to obtain better value for money from other suppliers) and open and effective competition (requiring effort and research to get the best possible outcome).<sup>24</sup> This would have involved Defence at least analysing DHA's proposed charges carefully and comparing them with those that another provider might charge in similar circumstances. (See paragraph 5.8.)

---

<sup>23</sup> Defence advised the ANAO in April 2003 that sole provider status conferred on DHA by the Act provided no choice or opportunity to seek alternative suppliers without agreement from Government, and that shareholder Ministers had instructed Defence and DHA to enter into an agreement.

<sup>24</sup> *Commonwealth Procurement Guidelines: Core Policies and Principles—March 1998.*

## Legal advice on the draft Agreement

**2.18** Defence sought advice on the draft Agreement from its legal advisers (a national law firm). Advice was sought specifically on the termination clause. The clause provided that the Agreement would continue for 10 years unless directed by the respective Ministers and that the parties would review the Agreement after five years. The firm advised Defence, on 5 June 2000, of significant legal and practical concerns with the clause that they believed could lead to considerable long-term detriment to the Commonwealth. Its greatest concern was that Defence appeared to have no ability to terminate for serious and continuing default by DHA. The firm noted that this was consistently against what had been the policy and direction of Government for the last five years. It also said that, if the contract did not enable Defence to terminate for default by DHA, this would be a very significant commercial and accountability concern that could not be adequately defended.

**2.19** The termination clause in the draft Agreement was not amended. No other clause was inserted to address the law firm's concerns.

**2.20** In response to the ANAO, Defence commented as follows:

In relation to the legal advice provided to Defence concerning the absence of an ability for the Commonwealth for serious and continuing default by DHA, it is important to note that this issue needs to be considered in the context of the parties to the Agreement. Unlike a contract between the Commonwealth and a company there are a wider range of factors which apply to DHA's performance of housing services which fall outside the Agreement itself. In particular, DHA is under a statutory obligation to provide "adequate and suitable housing ... in order to meet the operational needs of the Defence Force and the requirements of the Department (DHA Act s. 5). Furthermore, DHA is subject to the direction of the Minister with respect to the performance of its functions and the exercise of its powers (DHA Act s. 31). In these circumstances, and given that the Agreement includes a dispute mechanism which provides for binding arbitration Defence considers that the absence of a contractual termination for default provision is not as critical as it might be in other circumstances that are not governed primarily by legislation.<sup>25</sup>

**2.21** The law firm advised Defence on the whole draft Agreement on 6 June 2000. It advised that the Agreement would not meet Defence's objective of putting arrangements with DHA on a more commercial footing and would not adequately protect Defence's interests in the matter. It had four major concerns with the Agreement. In summary, these were as follows.

---

<sup>25</sup> Inspector General's letter to the ANAO dated 20 May 2003, Enclosure 2.

1. The Agreement is not a performance-based contract but rather takes a budgetary approach to the transaction. Rather than specify what services and standards must be provided within a defined price, it focuses more on what can be done within a particular available budget. It significantly limits the advantages Defence could otherwise obtain from a commercial arrangement. This leaves Defence with an unsatisfactory level of financial, legal and commercial risk. Most of the risk is with Defence, as customer.
2. The Agreement appears more like a policy document than a set of contractual terms. Key terms are abstract and unclear, creating an unacceptable degree of uncertainty.
3. There is a pervasive theme in the Agreement of concepts such as risk sharing, partnering and 'joint' activities, but without clear responsibility. This is highly risky and introduces significant legal uncertainty about each party's rights and obligations.
4. These three concerns combine to raise potentially far-reaching and serious risks to Defence's interests on issues such as performance quality and budgetary control.

**2.22** The firm also said that the Agreement lacked normal terms about failure to perform, the right to withhold money payable, record-keeping and audit requirements.

**2.23** Defence's Contract Authority informed the Secretary, on 7 June 2000, that the Agreement was ready for signature. No changes were proposed in response to the law firm's advice. The Secretary was informed that the law firm had advised that the Agreement is 'more like a policy document than a set of contractual terms'; that, 'rather than specify what services and standards must be provided within a defined price, the Agreement focuses more on what can be done within a particular available budget'; and that it is an Agreement with a pervasive theme of concepts such as risk sharing, partnering and joint activities. The Secretary was further informed as follows:

All of this is largely true and, in my opinion, rightly so for a relationship of this complexity between two Agencies of effectively the same Government Department. This is not a classical acquisition situation, involving a defined product. It is a service delivery agreement, intimately linked to some of the most sensitive 'Conditions of Service'. As such it operates in an environment where Defence needs to take shared responsibility in many areas. I am comfortable with the review arrangements built into the Agreement, and with the commitments to progressive cost-reduction, albeit not pre-defined.<sup>26</sup>

---

<sup>26</sup> Submission to the Secretary of 7 June 2000.

## Ministers' endorsement

**2.24** On 15 June 2000, Defence's Contract Authority and DHA submitted a joint minute to shareholder Ministers advising them of the intent to conclude a Services Agreement between Defence and DHA. The minute noted that Defence and DHA had concluded negotiating the Agreement following Government direction that DHA be placed on a commercial footing and make pricing transparent. It also noted that consultation had included separate legal advice to Defence and DHA; and the views of the DHA board, the Department of Finance and Administration, DPE, Defence Estate and RFP Division. It commented on legal issues as follows:

The intention is to have a legally relevant agreement with a clear understanding of pricing arrangements and risk sharing. Whilst a Government Business Enterprise, DHA has a statutory responsibility to provide housing to meet Defence's operational needs in a commercial way.

[Defence's law firm] has advised Defence that the Agreement does not have the rigour of a fully enforceable contract. In their opinion, it "focuses more on what can be done within a particular available budget" and that it is an agreement "with a pervasive theme of concepts such as risk sharing, partnering and joint activities". Defence accepts this believing that it reflects the type of agreement that is required between two parties which operate within the same organisation, i.e. Defence.

[DHA's law firm], acting for DHA, have advised that the Agreement "provides a sound basis in accordance with commercial practice for DHA to meet its obligations as a statutory authority" and that the Agreement "moves the relationship between the parties onto a commercial footing whilst maintaining a flexible partnering relationship. In doing so the Agreement includes adequate provisions, from a legal perspective, to better enable DHA to implement Government policy in the fulfilment of its statutory charter."

... Both parties are satisfied that the nature and structure of the Agreement are appropriate.

**2.25** On 4 July 2000, the Ministers advised that they were pleased to endorse the Services Agreement, provided that three issues were adequately resolved. They sought advice from DHA on whether operations under the Agreement would be contrary to the powers provided to DHA under the DHA Act and whether the DHA board was confident that DHA could manage its risks and obligations stemming from the Agreement. They also asked that clause 3.3 of the Agreement be modified to reflect that priority sales relate to the Commonwealth's Property Disposals Policy.

**2.26** Ministers were informed, on 20 July 2000, that the Services Agreement would not conflict with the DHA Act or the performance by DHA of its statutory functions under the Act; that the DHA board was confident that appropriate measures were

in place to deal with the business and other risk issues identified; and that the priority sales clause in the Agreement had been amended as requested.

2.27 After obtaining Ministers' concurrence, the Secretary and CDF signed the Agreement on 4 August 2000, with effect from 1 July 2000.

## Conclusion

2.28 The ANAO considers that it would have been more efficient and effective had the agreement negotiations been extended to try to overcome concerns expressed by Defence officers and legal advisers. There was a formal obligation to reach agreement with staff skilled in these matters.<sup>27</sup> The full extent of the law firm's advice—that the Agreement would not adequately protect Defence's interests and would involve serious risks for Defence—was not conveyed to the Ministers, the Secretary or CDF. The Agreement does not meet the Ministers' request for a properly constructed commercial contract, reflecting in an unambiguous manner the risks and obligations of each party.

2.29 Contrary to the advice to the Secretary, DHA is not effectively part of the Defence Department but is a statutory corporation separate from the Commonwealth and established as a GBE to operate commercially. It is legally and commercially at arm's length from the Department.

2.30 In response to the ANAO, Defence commented that the Services Agreement differs from commercial agreements struck with private sector organisations and that assumptions regarding the Defence/DHA relationship and both parties' commitments were reasonable at the time. Defence advised further, the Contract Authority 'considered that Defence had achieved the best deal at the time and that shareholder Ministers, in endorsing the Agreement, agreed'.

2.31 Defence noted that the Secretary was advised, through a submission from the Contract Authority dated 7 June 2000, that the Contract Authority considered that he was in a position to sign the Agreement. The submission also addressed the independent legal advice and reflected the Contract Authority's judgement that the Agreement was acceptable, notwithstanding the legal advice. This same advice was included in the joint minute dated 15 June 2000 to shareholder Ministers.

2.32 In further response, Defence advised that the advice provided by Defence's law firm was carefully considered; and that the submission to the Secretary of

<sup>27</sup> In 2000 the Chief Executive's Instructions (Volume 2, Part 6—Chapter 18 Procurement of Goods and Services) stated:

It is a requirement that officials/members in Defence, when exercising delegations for purchases over \$100 000, assure themselves that skilled staff were consulted and agree with the acquisition strategy (where applicable) and the terms and conditions of the purchase in question.

There was no acquisition strategy for the Services Agreement.

7 June 2000 acknowledged it and represented a decision made at the time that was based on experience and judgment of this advice and that provided to DHA by their law firm on 25 May 2000.

**2.33** The ANAO notes that relevant sections of the submissions referred to are quoted in this report. The submissions did not, however, inform the Secretary or Ministers of the legal advice that the Agreement would not adequately protect Defence's interests and would involve serious risks for Defence. Nor did the submission inform the Ministers, as suggested by the Defence response in paragraph 2.30, that the Agreement was considered to be the best deal at the time. The ANAO considers that Defence should have informed the Secretary and Ministers of the extent of the legal advice so that they could also apply their experience and judgment to the issues presented in order to better protect the Commonwealth's interests at the time. It is obviously not possible to judge whether their decision would have been adjusted but it may well have been.

## **Cost reduction**

**2.34** In response to internal queries about the robustness of the proposed Agreement, a Defence minute of 20 June 2000 commented, as follows, on the issue of cost reduction and the nature of the Agreement:

The Services Agreement contains firm commitments by DHA in the area of cost reduction. Defence's overall costs, and their reduction, are a Key Performance Indicator.

Overall I am satisfied that the form of the agreement is appropriate for a relationship of this nature operating in such a sensitive area. Critically, I am also satisfied that the higher management of DHA is committed to mutual productive outcomes. The Services Agreement is, however, simply the vehicle; the success of the arrangement will of course depend on the professionalism of the management...

It will also depend in part on the vigilance of the DHA Board of which you are the key Defence member, in ensuring the Agreement delivers what it is intended to do.<sup>28</sup>

**2.35** Contrary to that advice, the Agreement does not contain firm commitments by DHA in the area of cost reduction. It contains several references to cost reduction, but these are only in the form of an 'agreement to agree'. Defence's legal advisers noted that provisions of that kind are of uncertain enforceability. For example, the Agreement states:

DHA will perform its functions in a manner that ... meets Defence requirements efficiently and in good time, recognizing a joint objective to reduce the overall impact of Defence housing assistance on the Defence budget. (clause 2.3.4)

---

<sup>28</sup> Minute titled 'Defence—DHA Services Agreement', 20 June 2000.

**2.36** Nor are Defence's overall costs, and their reduction, a Key Performance Indicator. The only performance indicator in the Agreement relevant to costs is as follows:

The overall cost to Defence of housing assistance consistent with Defence requirements, measured as agreed between the Parties on an entitlement basis within rank groups. (Agreement, Annex F)

The indicator does not refer to cost reduction. At the time of audit, its basis of measurement had not yet been agreed.

## **Liability approval**

**2.37** *Defence Procurement Policy Guidelines* and *Chief Executive's Instructions* (CEIs) require three specific approvals (proposal, procurement and liability) before a contract is completed and payment can be made to the supplier. The Secretary, as indicated at paragraph 2.16, made the first two approvals in respect of the Services Agreement. The final step is intended to be the liability approval to bind the Commonwealth to making a payment of public money.

**2.38** Defence's submission to the Contract Authority at the time clearly envisaged that, although the Secretary had given procurement approval and proposal approval under the CEI, liability approval was still required as the third step. The required liability approval was not given for the proposed \$3.5 billion expenditure.

**2.39** In response to the ANAO, Defence commented that liability approval was unnecessary because the Agreement had been signed by the Secretary instead of the Contract Authority. Defence considers that the delegation did not have to be exercised and that procedures in the CEI for liability approval did not have to be followed, because the Secretary, as Chief Executive with inherent powers under the FMA Act, took all necessary actions himself. Further, once the Secretary became the signatory, the only legal requirement under the FMA legislation was for proposal approval as opposed to the requirements placed by the Secretary through the CEIs on Defence employees exercising a procurement delegation for procurement, proposal and liability approval.

**2.40** Legal advice received by the ANAO on this matter included the following comment:

The Secretary was not legally required to comply with his own CEIs arising under the FMA Act. Subject to any requirements of the Minister, the Secretary is also likely to have had full 'liability' approval to enter into the contract with DHA and was for legal and practical purposes, giving liability approval in signing the contract. The Secretary was, however, required to manage the affairs of Defence in a way that promotes the efficient, effective and ethical use of Commonwealth



resources for which he was responsible. It is conceivable that these obligations could have required the Secretary to undertake steps of the kind contemplated by the CEIs.<sup>29</sup>

**2.41** The ANAO notes that the CEI in question provides that ‘the person giving approval must record the terms of the approval in a document as soon as practicable after giving the approval.’ It further provides that ‘recording of agreement (or otherwise) is necessary for the purposes of accountability, internal control and to provide an audit trail’ and that ‘public accountability and fraud prevention require that one person should not exercise all procurement delegations for a discrete requirement.’ Therefore, even if the Secretary undertook all necessary actions himself, administrative better practice suggests that the decision, and reasons for it, should have been documented. The ANAO also notes that the Secretary, in undertaking all actions himself, did so on incomplete advice (paragraphs 2.28 to 2.33).

## **Gazettal of the Services Agreement**

**2.42** The *Commonwealth Procurement Guidelines* require that Commonwealth contracts and agreements be notified in the Commonwealth Gazette. There is no evidence in the on-line Commonwealth Gazettal system (GaPS) that the \$3.5 billion agreement was gazetted.

## **Defence media release on the Services Agreement**

**2.43** Defence’s media release announcing the Services Agreement with DHA stated, inter alia:

The agreement transfers responsibility for the allocation of service residences, approval and processing of rent assistance and liaison between ADF members and garrison support contractors for living-in accommodation.

The development of the service agreement was based on a recommendation by the Defence Efficiency Review. Since December 1999, responsibilities have been gradually transferred to the Authority with the transfer completed on 1 July 2000. ...

The Agreement sets out the pricing arrangements for Defence, the risk sharing of the property portfolio, the notice arrangements for Defence housing requirements as well as the performance indicators to be met by DHA. ...

Admiral Barrie [then CDF] said the overarching purpose of the agreement was to reduce the overall cost of providing housing to Defence and to maintain and improve the level of service provided to ADF members.<sup>30</sup>

---

<sup>29</sup> Advice from Minter Ellison to ANAO, 21 May 2003.

<sup>30</sup> Department of Defence Media Release PACC 188/00, *Agreement Signed with Defence Housing Authority*, 4 August 2000. Issued by Public Affairs and Communication, Department of Defence, Canberra, ACT 2600.



**2.44** Contrary to the media release, the Agreement does not transfer responsibility for the allocation of Service Residences, approval and processing of rent assistance (rent allowance) or liaison between ADF members and garrison support contractors for living-in accommodation. Delivery of these services was gradually transferred to DHA in 2000 and 2001 and covered by a separate agreement signed on 20 December 2002.

**2.45** Further, the development of the Services Agreement was not based on a recommendation by the Defence Efficiency Review (DER). The only relevant DER comments and recommendation were as follows:

There are significant benefits to be gained if one organisation manages the whole process of removal and housing allocation and there is considerable scope for rationalising the currently disparate processes. Excessive vacancies are estimated to cost Defence about \$14 million per annum in rent, while around \$5 million per annum in lost revenue results from GRE [Group Rank Entitlement] mismatches. Further avoidable costs are incurred when the timing of a member's removal and the availability of vacant accommodation is not synchronised. We consider that this activity should be rationalised and market tested as a matter of priority. ...

Recommendation 10.7—Establish one organisation for all activities involved with the posting and relocation of Defence personnel. This would include travel, allowances, temporary accommodation and permanent accommodation.<sup>31</sup>

**2.46** The recommendation in the DER Secretariat Papers flows from a discussion of housing and accommodation assistance funded and managed separately in Defence (each individual Service and the Forces Executive Program). The DER Secretariat recognised that this issue was compounded by Defence delegates not having visibility of, or being held accountable for, the financial implications of their decisions. The full context of the DER Secretariat's discussion indicates, to the ANAO, that the recommendation was for one organisation (area) in Defence to be responsible for all activities relating to housing and accommodation assistance.

**2.47** Rather than market test<sup>32</sup> the activities, as the DER proposed, Defence gradually handed them over, between December 1999 and July 2001, to DHA to deliver. As a result of Defence's introduction of internal purchaser/provider arrangements (between output groups, owner support groups and enabler groups) the activities (postings, housing related policy development and contract management of housing and relocation services) continue to be managed in different areas. (See paragraphs 2.53 to 2.72 regarding allocation and relocation services.)

<sup>31</sup> *Future Directions for the Management of Australia's Defence, Addendum to the Report of the Defence Efficiency Review, Secretariat Papers*, March 1997, pp. 274 and 287.

<sup>32</sup> The ANAO understands the term market test to mean establish a baseline (of the services to be provided and the current costs involved) and then 'test' to see what the market would charge to do the same function. It does not necessarily mean to contract out the services.

**2.48** The media release also stated that the overarching purpose of the Agreement was to reduce the overall cost of providing housing to Defence and to maintain and improve the level of service provided to ADF members. The ANAO notes, however, that the purpose of the Agreement is not to reduce costs but to document arrangements between Defence and DHA to satisfy the operational and business requirements of Defence for housing, accommodation and related services.<sup>33</sup>

**2.49** Defence advised the ANAO in April 2003 that ‘it would appear that this document [media release] was provided to Defence Public Affairs and Communication (PACC) by DHA and there appears to be no indication that Defence was consulted prior to submission of the article.’<sup>34</sup>

## Is the Services Agreement a contract?

**2.50** During preparation of the Agreement, and in subsequent management of the Agreement, Defence staff indicated some uncertainty on whether the Agreement is an enforceable contract. The ANAO sought independent legal advice on the issue.

**2.51** In its advice to the ANAO, the Australian Government Solicitor, Office of General Counsel, concluded as follows:

... In our view, some provisions of the Agreement would be legally binding and capable of enforcement by the parties, but others would not be so regarded. We have identified ... those provisions which we think would be regarded by a court as legally binding.

It is established that an agreement entered into between government bodies may contain provisions which are capable of being legally enforced together with provisions which are not capable of being legally enforced. ...

In our view, the agreement between Defence and DHA is an example of such a ‘mixed’ agreement. In this respect, the provisions of the Agreement setting out the general undertakings of the parties in relation to matters such as, for example, consultation and sharing of information would probably not be enforceable, either on the basis they are too vague to be enforced, or on the basis that they are merely agreements to agree on matters in the future. ...<sup>35</sup>

---

<sup>33</sup> Defence/DHA *Services Agreement for Housing and Related Requirements Part 1 Purpose*, Part 1.2 *Aim*.

<sup>34</sup> Defence response, dated 10 April 2003, to ANAO discussion paper on the housing and relocation services performance audit.

<sup>35</sup> Advice from Australian Government Solicitor, Office of General Counsel to ANAO, 28 January 2003.

2.52 The ANAO notes, therefore, that the provisions relating to Defence's liability to make payment to DHA were likely to be enforceable, even in the event of a dispute.<sup>36</sup> The Agreement does not clearly define the services to be provided in order for payment to be made. Rather, as indicated above, the provisions are agreements to agree on matters in the future. The ANAO concludes that it is Defence's responsibility to ensure that appropriate service is delivered, in accordance with Defence requirements and housing policy standards, before correct payment is made.

## Relocations Services Agreement

2.53 The Services Agreement of 2000 focused on provision of housing stock (specified numbers of houses, adjoining townhouses or apartments) to Defence. It provided for further agreements on related matters. Accordingly, a further agreement, the Relocations Services Agreement, was signed in 2002. The latter agreement concerns DHA's allocation to individual members from that housing stock, and relocation services to members. Its origins were in the DER, in 1997, which reported that provision of housing services should be rationalised and market tested (see paragraph 2.45). A resulting imperative in the Defence Reform Program, which was based on the DER, was to rationalise Defence's many Service Housing Authorities to achieve identifiable savings from the relocations function. This rationalisation occurred in the following years, prior to the Services Agreement.

2.54 In May 1998 the Defence Personnel Executive stated that the vision for the rationalised Service Housing Centres (renamed Defence Relocation Centres) was:

to provide a regional Defence personnel service centre by the end of 1999, a one stop shop, which will operate in concert with a national personnel services call centre to provide, primarily, advice and assistance to the 16 000 Defence personnel who currently relocate each year.

The specific role of the regional centres will be to provide housing allocation and pre-allocation, inspections, MQ [Married Quarter] classification, management of keys and removals. The role of the national centre will be to answer relocation enquiries, pay removal entitlements, organise HHT [house hunting trips], travel and accommodation and provide overall coordination of Defence relocations.<sup>37</sup>

---

<sup>36</sup> Clause 6.5.5 of the Services Agreement states that 'in the event of a dispute Defence will continue to make payments in accordance with this Agreement...'

<sup>37</sup> Defence Personnel Executive, Directorate of Military Personnel Operations and Integration Minute, *Rationalisation of Service Housing Authorities (SHA)*, 26 May 1998.

2.55 A DHA presentation to its board in September 1999 noted that Defence, by transferring functions to DHA, would make staff savings in the order of \$4.247 million. As part of these calculations, DHA specified their expected staffing numbers. It was explained that DHA's proposed structure would require only 65 additional staff to deliver both allocations and removals functions, following a trial period.<sup>38</sup> In the event, however, it appears that DHA increased its staff numbers significantly, as shown in Table 2.1.

**Table 2.1**  
**Number of DHA staff (nationally)**

|        | 30 June 1999 | 30 June 2000 | 30 June 2001 | 30 June 2002 | May 2003   |
|--------|--------------|--------------|--------------|--------------|------------|
| Number | 239          | 290          | 459          | 658          | around 800 |

Source: 30 June 1999 to 2002: Answer to Question No.961, HR Hansard, 4 February 2003, p. 94.  
May 2003: Portfolio Budget Statements 2003–04 Defence Portfolio (Department of Defence and DHA), p. 202.

2.56 Head Defence Personnel Executive announced in October 1999 that it had been decided that DHA would provide housing allocation services for ADF members. Defence housing staff were further informed that '[a]s foreshadowed in the Defence Reform Program and consistent with the long-term vision for the delivery of Relocation Services, the decision has been taken to transfer further significant housing functions to DHA.'<sup>39</sup> The ANAO notes that transferring these further housing functions to DHA was neither foreshadowed in the Defence Reform Program nor consistent with the vision stated above.

2.57 DHA advised the Minister Assisting the Minister for Defence in November 1999 that the Services Agreement would cover the transfer of the allocations function to DHA. This did not occur. At the time, Defence was in the process of handing to DHA the responsibility for housing allocations and associated services to ADF members.<sup>40</sup>

<sup>38</sup> *Presentation to the DHA Board on assuming responsibility for the allocations function*, September 1999, slides 19–21.

<sup>39</sup> Department of Defence minute dated 26 October 1999.

<sup>40</sup> In Darwin (where the allocations function was first transferred to DHA), DHA was to provide the following services on notification of posting of a Defence member with family: processing married quarter applications; matching housing with the requirements of incoming families; conducting march-out inspections; raising and administering tenant charges; issue and control of keys; raising a Condition Report on the house; ensuring works required are completed prior to reoccupation; arranging temporary accommodation in Darwin; march-in; management of Rental Allowance (including financial delegations); assessment of proposed acquisitions and disposals; and dispute resolution.

**2.58** Defence advised the Chief of Staff to the Minister Assisting the Minister for Defence, in December 1999, as follows:

The [DER] recommended the establishment of one organisation for all activities involved with the posting and relocation of Defence personnel. Over the last two years significant rationalisation has occurred with commensurate savings. ... To achieve greater efficiencies it has been agreed that DHA assume responsibilities for ADF housing allocations and related functions.<sup>41</sup>

**2.59** The advice to the Minister was silent on the DER comment that it was considered that this activity should be 'rationalised and market tested as a matter of priority', or on how greater efficiencies could be achieved by DHA delivering the services. The minute noted that 'the transfer of functions to DHA ... will be covered in the Service Level Agreement between Defence and DHA'. The Services Agreement does not cover these services but provides for development of 'separate, detailed and mutually agreed arrangements'.<sup>42</sup>

## Developing a separate agreement

**2.60** When the Services Agreement was signed in 2000, one of the outstanding issues was the need to make a separate 'allocations agreement'. In August 2000, the DHA board was advised that the aim was to have this second agreement completed in three months. The scope was later expanded to include the 'relocations' function but the agreement was not signed until December 2002.

**2.61** The decisions that the allocations function, and the relocations function, would be delivered by DHA were also made without market testing. Defence records indicate that the decisions were made before the services to be provided by DHA, or Defence's actual baseline costs, were defined. No Defence business case has been located on how the functions would be provided or how outstanding issues would be addressed. The senior Defence officer responsible for the functions being delivered by Defence, and who was involved in the decision-making process for DHA taking over the role, was a member of the DHA board.

**2.62** In December 2000, a year after the decision to transfer the allocations service to DHA, the Defence Domiciliary Group (responsible for strategic management of the Services Agreement) noted that Head Defence Corporate Services (HDCS) stated Defence costs of the allocations services had been in the order of \$3.2 million (based on Defence ready reckoner variable costs<sup>43</sup>).

---

<sup>41</sup> Defence Personnel Executive Minute, *Ministerial Schedule No.32669—Transfer of allocations and related housing functions to the Defence Housing Authority*, 14 December 1999.

<sup>42</sup> Clause 2.5.2 of the Services Agreement.

<sup>43</sup> The Ready Reckoner defined variable costs as costs which vary readily either with the level of activity or with changes in the number of positions carrying out that activity. These costs are considered to comprise savings recoverable from Savings and Efficiency Initiatives.

The DDG minutes note that HDCS advised that the cost of the new arrangements should not exceed this.

**2.63** More than two years later, there was still no agreement on provision of this service. Negotiations for allocations were incorporated into negotiations for provision of a comprehensive relocations service. A consultant reported that 'Defence lost confidence in DHA's capacity to deliver the services and as a result, suspended negotiations of the Relocations Agreement on 23 November 2001.'<sup>44</sup> However, delivery of the services by DHA continued. In 2001–02, Defence paid some \$6.3 million to DHA for the provision of allocation services. This was almost double Defence's estimated in-house cost. A factor in the increased cost was the ADF's higher operational tempo during that time. This affected the number of housing allocations processed by DHA, which was paid a set rate per transaction.

**2.64** In 2001–02, ongoing monthly management fee payments were based on rates set out in the draft November 2001 contract for allocations and relocations. Defence records indicate that, in that year, Defence paid DHA \$15.6 million for management of these services (\$6.3 million for allocations and \$9.3 million for relocations).

**2.65** During Defence's peak posting period of 2001–02, DHA's delivery of allocations and relocation services was criticised by Defence and ADF members. A senior Defence officer is reported to have stated that 'relocations has become one of the biggest personnel issues facing Defence and that that the rectification of the current problems must occur quickly to reduce the impact on Defence members.'<sup>45</sup> Defence actively sought to remedy the situation. Defence advised the ANAO that it put DHA on notice in November 2001 following its poor performance.

**2.66** Until December 2002, services provided by DHA for the allocation (and then relocation) management fees had not been documented in a formal agreement. As a result, Defence was unable to ensure correct payment for services provided. Reconciliation of payments to DHA for the number of relocations or allocations, at the end of 2001–02, was based on DHA data. DRH staff had no facility to validate service data provided by DHA. Records show they did not seek any supporting documentation from DHA before making payment.

**2.67** As a result of the difficulties experienced in 2001–02, DRH staff concentrated throughout 2002 on developing and negotiating a new agreement, for both allocation and relocation services. Because of this activity at the time of the audit, the ANAO did not examine arrangements for the new agreement.

---

<sup>44</sup> Consultants' report *A Review of the Defence Housing Authority's Capacity to Deliver Relocation Services for Defence*,—March 2002, p. 2.

<sup>45</sup> *ibid.*

However, the ANAO wrote to Defence in October 2002 about audit issues that emerged from preparation of the 2000 Services Agreement.

**2.68** The Relocations Services Agreement between Defence and DHA was signed on 20 December 2002. Like the 2000 Services Agreement, the Relocations Services Agreement appears not to have been gazetted as required by the Commonwealth Procurement Guidelines. Defence advised in May 2003 that the gazettal process has commenced.

**2.69** The Relocations Services Agreement is in a more satisfactory form than the Services Agreement and is a commercial contract with a defined statement of work. It includes provisions of a kind omitted from the Services Agreement: for example, provisions for recourse in the event of failure to perform, the right to withhold money payable, record-keeping and audit requirements. It also has clear links between specified, detailed, Key Performance Indicators and a monthly performance payment.<sup>46</sup>

**2.70** Defence advised in May 2003 that provisions under the Relocation Services Agreement included extension of the Agreement beyond June 2003 being dependent on satisfactory performance review against agreed KPIs over the period 1 November 2002 to 31 January 2003. The review has been performed and confirmed that, over the subject period, DHA had met agreed performance standards. The review report highlighted, however, two areas where better record keeping by DHA was required. Defence has indicated to DHA that, subject to this issue being satisfactorily addressed by 30 June 03, it will extend the Agreement into its next Phase. Similar reviews are to be held prior to extension of the Agreement into Phases 3 (2006–2008) and 4 (2008–2010).<sup>47</sup>

**2.71** New charges for services are higher than Defence's estimated costs were when the function was undertaken in-house. Combined fixed annual fees under the new agreement amount to \$15.28 million, plus some additional charges. The services (and reporting requirements) now provided by DHA differ from the 'one stop shop' approach envisaged in paragraph 2.54.

**2.72** The ANAO appreciates the difficulty Defence staff had in negotiating with DHA for a contract for services already being provided and where Defence no longer had the capacity to provide services in-house, particularly in such a critical area of ADF personnel policy. The ANAO considers that, normally, market testing of services would be the first step in ensuring that the Commonwealth received best value for money and in deciding the extent of the service to be provided prior to handing over the function to another party. It would have been preferable had contract terms been agreed prior to handing over the service delivery function.

<sup>46</sup> The *Relocations Services Agreement* allows for service credits for Defence, or performance bonuses for DHA, in the event of under or over performance against stipulated KPIs.

<sup>47</sup> Inspector General's letter to the ANAO dated 20 May 2003, Enclosure 2.



## 3. Strategic and Operational Management of Services

---

*This chapter discusses Defence's representation on the DHA board and Defence's strategic and operational management arrangements for management of housing services. It also discusses other stakeholders involved in housing issues, and the independent review of the operation of the 2000 Services Agreement.*

### Defence officers on DHA board

**3.1** Since it was enacted in 1987, the DHA Act has provided for the board to include a number of Defence officers. The then Minister for Defence explained the reasons for this in his Second Reading Speech for the Bill to establish DHA, as follows:

Membership of the board of management has been structured to ensure the application of the necessary skills for housing management and proper coordination with defence policy and planning. It will comprise four part time members, including the chairperson, selected on the basis of business expertise and wide knowledge of housing operations and social planning, and four members to represent each of the Services and the Defence Department.<sup>48</sup>

**3.2** The DHA board now comprises the Chairperson, four part-time members appointed from the ADF; a part-time member appointed from the civilian staff of the Department of Defence; the spouse of an ADF member; the Managing Director; and four other part-time members. The four other part-time members are to be appointed for their expertise in any of the following fields: housing operations; property development or management; business management; real estate management; finance; building or construction management; or social planning.<sup>49</sup>

**3.3** DHA's role has developed since 1987 from a housing stock provider for Defence's needs to a commercial body engaged in housing assistance, rental assistance and relocations services with minimal Defence visibility of DHA operational decision-making. The relationship between Defence and DHA is now formalised in agreements.

**3.4** As a GBE, DHA is subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Section 22 of the CAC Act requires directors of a CAC authority board to make business judgments on the board in the best interests of the authority. Section 28 provides that the directors are to ensure that the

---

<sup>48</sup> Extract from Second Reading speech for the DHA Bill by the then Minister for Defence, Hansard 18 March 1987, p. 1052.

<sup>49</sup> DHA Act, sections 12 and 14.



authority carries out any Commonwealth policies that the responsible Minister informs the directors that they are to apply to the authority.

**3.5** Governance arrangements for GBEs state that their directors are to ensure that the GBE's activities minimise any divergence of interests between the GBE and the shareholders and that GBEs are managed in the best interests of the shareholders. GBE directors are to contribute to achieving the GBE's objectives. Appointing departmental officers to GBE boards to represent the Government's interests will be considered only in exceptional circumstances.<sup>50</sup>

**3.6** Defence officers on DHA's board are now in a situation of potential conflict of interest, as the board must take business decisions in DHA's interests and also take a commercial approach to Defence.<sup>51</sup>

**3.7** Shareholder Ministers have, from time to time, considered reducing the number of Defence officers on the DHA board, but these proposals have not yet proceeded. During negotiations on the proposed Services Agreement, the head of Defence's financial area was a member of the DHA board. He removed himself from the negotiations due to his conflict of interest. Another situation of potential conflict of interest was referred to in the previous section, concerning the Relocations Services Agreement.

**3.8** The ANAO is aware that the DHA Act has been under review for some time. As part of the current review, Defence, in administering the DHA Act on behalf of the Minister, might consider reviewing the provision in the Act for

<sup>50</sup> Extracts from Governance Arrangements for Commonwealth Government Business Enterprises—June 1997 (Department of Finance and Administration website):

- 1.3 The guiding principles of the governance arrangements are:
  - a. Shareholder Ministers exercise strategic control consistent with their accountability to the Parliament and the public.
  - b. Shareholder Ministers set clear objectives for GBEs;
    - i. any Community Service Obligations (CSOs) that a GBE is to undertake are generally specified through contractual arrangements.
  - c. The directors of a GBE develop the business strategies and handle the day-to-day management policies.
  - d. The directors of a GBE ensure that:
    - i. the GBE's activities are conducted so as to minimise any divergence of interests between the GBE and the shareholders;
    - ii. GBEs are managed in the best interests of the shareholders; and
    - iii. GBEs and their officers maintain the highest standards of integrity, accountability and responsibility.
- 3.4 GBE Boards of directors are to comprise people with an appropriate mix of skills, who are to be appointed on the basis of their individual capacity to contribute to the Board having an appropriate balance of relevant skills (such as commerce, finance, accounting, law, marketing, workplace relations and management) and contribute to the achievement of the GBE's objectives.
  - a. Boards should draw on outside expertise where necessary to augment their own skills.
  - b. The Board Chairperson shall not also be an executive of the GBE, unless otherwise agreed by the Shareholder Ministers.
  - c. The appointment of departmental officers to GBE Boards will only be considered in exceptional circumstances, having regard to their ability to represent the interests of the Government, their possession of the business skills referred to above, and to any potential conflicts of interest that might arise.

<sup>51</sup> Note, however, that section 20(4) of the DHA Act *Disclosure of interests* states that a member is not taken to have a material interest in a matter only because the member is the tenant of a house rented from DHA.

Defence officers to be appointed to DHA's board, in view of the board's obligation to pursue DHA's interests rather than those of Defence.

## Recommendation No.1

3.9 The ANAO *recommends* that Defence consider reviewing, and providing advice to the Government on, the provision in the *Defence Housing Authority Act 1987* for Defence officers to be appointed to the DHA board, in view of the potential conflict of interest that such appointments create for those officers.

### *Defence response*

3.10 This recommendation is agreed. A review of the Act was commenced in 2000, with independent legal advice commissioned by DHA being provided by Mallesons Stephen Jaques in June 2000. Defence was invited, through its Shareholder Advisory Unit, to have input into the review which included board membership and extension of DHA business to provide services to other Government Departments. As DHA was experiencing considerable difficulties with delivery of relocation services at the time, Defence input was deferred subject to DHA improving delivery of the services for which they were already responsible. A current review is addressing, inter alia, the board membership; this review will consider the advice of June 2000.

### *DHA response*

3.11 In response to Recommendation No.1, DHA stated that the audit report asserts, without reasoned argument, that Defence members of DHA's board have a potential conflict of interest and therefore should be removed.

3.12 The ANAO notes that the audit report does not assert that Defence members should be removed from the board. It recommends that Defence consider reviewing the provisions in the DHA Act for appointing Defence officers to the board in view of the potential (organisational) conflict of interest that such appointments create.

## Strategic management

3.13 In addition to Defence's representation on the DHA board, its strategic management of housing and relocation services is facilitated by representation on the Defence Domiciliary Group (DDG) and the Domiciliary Operations Committee (DOC), which were established by the 2000 Services Agreement with DHA.

3.14 The Services Agreement specifies that the DDG will strategically monitor and review the Agreement and set terms of reference for that monitoring. Performance management will be monitored regularly and reviewed annually

against agreed indicators.<sup>52</sup> The DDG's Governance Charter was finalised at meeting number 5, held on 7 November 2001. The Charter states that membership of the DDG will be:

From Defence: Deputy Secretary Corporate Services (Chair); Head Services Delivery; Head Infrastructure; First Assistant Secretary Business Strategy; Head Defence Personnel Executive and from DHA: Managing Director; General Manager Defence and Business; General Manager Development and Sales; Chief finance Officer. Secretariat services are provided by Director Relocations and Housing.

**3.15** DDG minutes indicate that membership varies. Usually more people attend than stipulated in the charter, but only those in appointed positions have voting rights.

**3.16** The DDG has established the Defence Business Forum to address day-to-day issues at the working level.

**3.17** The DOC is co-chaired by Head National Operations Division (formerly Head Defence Corporate Services) and DHA's General Manager Defence and Business. The DOC is required to supervise the operation of the Agreement at a national level. The Agreement states that membership will be at Senior Executive Service or equivalent level. Secretariat services to the DOC are provided by DHA.

**3.18** Although the DDG and DOC are not mentioned in the 2002 Relocations Services Agreement, information obtained during the audit indicates that services (allocations and relocations) under that agreement are also managed through the DDG, DOC and the Defence Business Forum.

## Operational management

### Corporate Services and Infrastructure Group

**3.19** The Services Agreement with DHA took effect from 1 July 2000. Its purpose is to provide housing stock for Defence. At the time, DHA also provided housing allocation services for members. Defence management of housing stock and related services in Defence Corporate Support (DCS) was to be split between central and regional staff. In September 2000, DCS Regional Contract Managers were tasked with performing various management functions on behalf of DCS Central as a result of the services being delivered by DHA. Revised Standard Operating Procedures were to be issued once Key Performance Indicators (KPIs) were agreed.<sup>53</sup>

<sup>52</sup> Clause 4.5.1 and 4.5.2 of the *Services Agreement on Housing and Related Requirements*.

<sup>53</sup> Defence's Standard Operating Procedures for Housing (Version 3), issued on 29 October 1999, were required to be updated to reflect changes arising from the Services Agreement and DHA's provision of allocation services.

**3.20** By November 2000, DCS Central staff had developed a draft contract management strategy for monitoring the Agreement. The contract framework was to be further explored by DCS Central and regional staff during their conference later that month. The draft strategy set out the following over-arching principles that were to govern the relationship with DHA:

1. DHA is to monitor their performance and report their performance level against established KPIs.
2. Defence, through Contract Managers, will conduct random audits of all services to measure the extent to which DHA is meeting the performance standards and to independently verify their reporting.

**3.21** To achieve these principles, the following roles were set out:

Nationally DCS Central will assume the role of principal Contract Manager with the following responsibilities:

- a. undertake all Contract negotiation and amendments
- b. payment of all DHA accounts
- c. formal reporting on KPIs
- d. preparation and negotiating on the DHR [Defence Housing Requirement]
- e. development of DCS Contract Management framework.

Regionally the contract management will be under the responsibilities of the Regional DCS Managers through an identified Contract Manager. They will take on the day to day management activities. Their roles include:

- a. validation of rents and charges applicable to their region
- b. monitoring of stock movements
- c. random checking of all measures and investigating any adverse trends
- d. regular meeting with HMC Managers
- e. DRC [Defence Relocation Centre] residual functions (electricity, tenant recover, inspections, DHR [Defence Housing Requirement] input etc).<sup>54</sup>

**3.22** Defence staff began managing the relationship as outlined in the draft strategy but it was never fully implemented. The KPIs were not agreed, Standard Operating Procedures (SOPs) were not revised and a national management framework was not disseminated. During 2001, Defence decided that the contract would be managed nationally. No records were available to explain how the contract management strategy (above) would be amended. Also, no record could be located explaining when this decision was communicated to regional Defence staff. Regional staff indicated to the ANAO that they were advised by senior Defence officers to 'let DHA get on with the job and to stop micro managing its performance'. Around April 2001, many of Defence's Regional Contract Managers stopped collating the data outlined in the draft strategy. Defence subsequently revised the position description with the new title of Client Service

---

<sup>54</sup> DCS Contract Management Strategy dated 7 November 2000.

Managers–Relocations (CSM-Rs), with an emphasis on client liaison rather than contract management. At the time of audit, this revised role had not been clearly promulgated in Defence. Defence has since advised that this issue is being addressed as part of the improved contract management strategy under preparation, which will include national as well as regional roles.

**3.23** With an organisational restructure in DCS Central in 2001, responsibility for, and supervisory management of, these positions varied. Under the new Corporate Services and Infrastructure Group (CSIG) structure, the Directorate of Relocations and Housing (DRH) was formed in Canberra in the Personnel Services Delivery Branch. The regional Service Delivery Manager, who reported to the Director-General Service Delivery–Regions and Bases Branch, managed and resourced the CSM-R. Two separate lines of command evolved, with DRH providing only technical guidance to the CSM-R. As part of the latest CSIG reform ‘Next Steps’, Service Delivery Division has been restructured and named National Operations Division (NOD).

**3.24** DRH is now responsible for managing relocations services (housing and removals) for the ADF through DHA and Toll Transitions.<sup>55</sup> Management of housing arrangements includes setting the annual Defence Housing Forecast (the housing requirement for the coming year and projections out to Year Five) and subsequent acceptance of DHA’s Provisioning Schedule provided to Defence. DRH manages financial arrangements with DHA, including payment of the monthly rent bill, service fees and reimbursement of relocation allowances paid on Defence’s behalf. DRH is also responsible for performance monitoring and reporting, and variations of the Agreements with DHA and the contract with Toll Transitions.

**3.25** Prior to the national rollout of the Next Steps business model in December 2002, CSM-Rs were considered in some regions to be part of the Military Pay and Conditions cell, but in other regions they were part of the regional Contract Management cell. All regional offices in NOD are now to have the same reporting structure. The level, responsibility and number of staff undertaking the CSM-R role vary according to the complexity and size of the individual region.

**3.26** The ANAO reviewed 10 of the 17 CSM-R offices. At the time, it was evident that the only official guidance for the CSM-R was a two-page job description matrix that did not specifically address what the job involved or how it was to be done. Most regional offices the ANAO visited had only one or two people in this role. Their lack of clear guidance resulted in different approaches across regions. The type of work undertaken by regional staff depended on the individual staff member’s background and experience in housing and contract

---

<sup>55</sup> Toll Transitions is the removalist firm engaged to undertake removals for Defence personnel.

management issues. The ANAO has since been advised that, as a result of the November 2002 CSM-Rs conference, draft SOPs, developed by DRH, were circulated to relevant staff in March 2003 for comment. The ANAO expects that the SOPs will assist in gaining consistent management approaches across the regions.

## **Interaction with Defence Personnel Executive**

**3.27** Work undertaken by staff in Defence Personnel Executive's Personnel Policy and Employment Conditions Branch has a direct impact on services provided by DHA under both Agreements with DHA.

**3.28** The Branch has two directorates specifically involved in housing and related matters. The Directorate of Housing and Removals Policy (DHRP) is responsible for reviewing, developing and implementing ADF housing, removal and accommodation assistance policies. The Directorate of Entitlements (DE) is responsible for implementation of personnel policy in relation to financial and related conditions of service for ADF members in Australia. It also manages casework beyond the powers delegated to local commanders, or the subject of appeal processes.

**3.29** The ANAO found that the awareness of housing policy updates varied among staff and that their ability to access the Defence restricted network and the Defence internet website (DEFWEB) was a factor in this. Defence has noted that policy updates are available to staff on the DEFWEB. One regional CSM-R used the DPE 'Outreach' product, which enabled him to view the latest policy initiatives when out of the office dealing with ADF members and their families. This product is distributed to make information available to Defence staff in remote locations where DEFWEB is unavailable. The ANAO considers that better awareness of, and access to, this product would assist staff involved in implementing Defence housing policy.

**3.30** DHRP and DE have held a program of housing policy training sessions for DHA regional Housing Management Centre staff. The ANAO audit team benefited from attending a session. Feedback and file notes indicate, however, that some regional Defence staff are unaware of the training sessions until the last minute, or they were advised by DHA staff. The ANAO considers that liaison between areas in DPE and the CSM-Rs could be enhanced to ensure that the current housing policy is being implemented.

### *Data access, ownership and visibility*

**3.31** The ANAO was advised that DHRP obtains rental information direct from DHA as part of the calculation of the annually updated Rent Allowance ceiling

rates. Separately, Defence's Tax Management Branch, in the Chief Finance Officer Group, obtains data direct from DHA for calculation of Defence's Fringe Benefits Tax liability on provision of housing assistance to members. The ANAO considers that Defence management would benefit if the Defence contract management area, DRH, provided rent bill data to the Tax Management Branch and other relevant areas in Defence. The present situation means that a number of housing data sets in Defence are not necessarily based on the actual rent bill paid under the Services Agreement. Conversely, the data being sourced direct from DHA would help the contract management area confirm the rent bill.

**3.32** In relation to operational management of the Agreement, Defence has tasked CSIG (DRH), as an Enabler, to manage day-to-day relations with DHA. DHA must, however, provide the services in accordance with the housing and accommodation assistance policy developed by DPE (DHRP), as Owner Support. However, in a standard service contract management relationship, it is preferable to have a single point of contact with the service provider. Where this does not occur, it is difficult to ensure that services meet requirements.

**3.33** The Agreement specifies that Head Defence Corporate Support has direct responsibility for its operation. In practice, however, DHA has no single point of contact in Defence. As a result, the informal relationship between DHRP, DRH and DHA has a direct impact on Defence's ability to check DHA services for acceptability against requirements; manage the arrangements; and hold DHA accountable. Defence has advised the ANAO, however, that internal communication is improving among the relevant areas.

**3.34** DRH, as the area responsible for contract management, relies heavily on DHA to provide operational management information. As DRH does not have ready access to all the data on members' housing and rent contributions that it needs to calculate the overall level of the Defence rent subsidy, DHA was asked, in 2002, to assess whether the subsidy was approaching the 50 per cent target level set in Defence policy. Defence's reliance on the service provider to advise on policy achievement seems incongruous, given the formal 'arm's length' relationship under the Services Agreement. (The subsidy level is discussed at paragraph 4.100.)

## Other stakeholders

**3.35** Many other stakeholders are involved in developing and providing housing and accommodation assistance programs. Personnel directorates in each Service (Army, Navy and Air Force) have input into these programs. The Defence Shareholder Advisory Unit, in the Chief Finance Officer group, provides advice to the shareholder Minister and maintains a working relationship with DRH.



Other areas in the Chief Finance Officer group provide financial advice to DRH. The Defence Community Organisation provides assistance and support to ADF families, particularly at the local level.

**3.36** Stakeholders outside Defence are also involved. They include the Armed Forces' Federation of Australia Inc and the (former) National Consultative Group of Service Families (which was renamed Defence Families of Australia (DFA) in August 2002).

**3.37** DFA's new mission is 'A voice for Defence Families'. In an address in August 2002, the National Convenor thanked the Minister Assisting the Minister for Defence and the Chief of the Defence Force for the overwhelming support that the group has enjoyed over the years, and commented as follows:

With the support of the Minister and the senior levels of the ADF, we are able to improve areas of Defence policy that affects Defence families—if the families are happy, the member is happy and more likely to enjoy a fulfilling and lengthy career with the ADF.<sup>56</sup>

**3.38** At the time, DFA had 250 members. Its National Convenor was the serving Defence spouse representative on the DHA board. At its 2002 Conference, DFA<sup>57</sup> commented on the business card that DHA issues to ADF members in its Relocations Pack, which shows, by region, Defence and DHA contact telephone numbers for relocation matters. DFA said it was 'concerned that, as the CSM-Rs<sup>58</sup> are the point of contact for unresolved DHA issues, giving their phone numbers on the business card seems to send the wrong message'. In effect, DFA sought to list only DHA staff as contacts for housing and relocation problems. DRH staff insisted that the phone numbers remain, as it was viewed important that members were aware of who, in Defence, they should contact if there were any issues where the member needed Defence's involvement.

**3.39** DFA's concern underlines a need for the CSM-R role of client liaison to be clarified, and promulgated throughout the Defence community. It also highlights an apparent disconnect between DFA and Defence operational staff who seek to manage and validate DHA's performance.

## **'Client' satisfaction**

**3.40** Ensuring that members are satisfied with their housing is an important element of operational management of the Services Agreement, and is mentioned

---

<sup>56</sup> Extract from Defence Families of Australia—new name webpage, printed on 3 March 2003. <[http://www.defence.gov.au/dpe/dfa/new\\_name.htm](http://www.defence.gov.au/dpe/dfa/new_name.htm)>

<sup>57</sup> *NCGSF Annual Conference 2002 Summary*. The NCGSF changed its name to Defence Families of Australia during the conference.

<sup>58</sup> Defence's Client Service Managers—Relocations.



several times in the Agreement. Both Defence and DHA try to measure the level of satisfaction. DHA's mission in 2001–2002 was to deliver total housing and relocation services that meet Defence operational and client needs through a strong customer and business focus.

**3.41** Defence and DHA undertake formal and informal surveys of members' satisfaction with housing, maintenance service, relocations and allocations. Defence's annual survey results, in part, enable Defence to validate the results of surveys conducted by DHA.<sup>59</sup>

**3.42** DHA conducts periodic surveys of a small sample of ADF tenants to assess customer satisfaction. On the basis of recent surveys, it reported that its Current Accommodation Customer Satisfaction Indexes (CSIs) increased between 2001 and 2002. Specifically, the Location CSI (based on proximity to schools, shops and work) increased from 76.2 to 78.4 per cent; the Standard CSI (based on bedroom number and size, security features, heating, cooling and storage etc) increased from 67.0 to 70.9 per cent; and the Overall CSI increased from 70.5 to 74.4 per cent.<sup>60</sup>

**3.43** In addition to measuring client satisfaction levels, DHA actively manages particular client's needs. In order to ensure an appropriate level of satisfaction with the service provided, DHA's standard operating procedures on relocations capture data on the importance of the member's position. The more important members, known as 'Defence Key Positions', include members at one-star rank (Brigadier or equivalent) or above, members going into command positions, and DFA delegates. DHA rules, available in Defence, indicate that DHA's Managing Director is advised of all these Defence Key Position relocations.<sup>61</sup>

**3.44** With such a focus on ensuring that members, especially senior members, are satisfied, there is a risk that a member's 'wishes' may be granted even where

---

<sup>59</sup> A Senate committee report on recruitment and retention of ADF personnel, in 2001, recommended that the Government conduct an independent survey to assess the level of customer satisfaction with the accommodation assistance provided by DHA and recommend improvements. In its response, in 2003, the Government agreed to the recommendation and commented that Defence has contracted a company to carry out a survey of personnel for their satisfaction of the full range of support services provided to ADF personnel by DHA and that Attitude Surveys and more regular topical issues surveys are now specifically addressing these issues. (*Government Response to the Recommendations of the Senate Foreign Affairs, Defence and Trade References Committee Report into Recruitment and Retention of ADF Personnel*, Senate Hansard, 13 May 2003, p. 10563.)

<sup>60</sup> *Defence Housing Authority Annual Report 2001–2002* (September 2002) p. 28.

<sup>61</sup> Defence advised the ANAO that, when reviewing DHA's Standard Operating Procedures in January 2003, Defence noted special procedures to be put in place for ADF staff in Defence Key Positions and commented:

You will be aware that there are several other Members, not in 'Key Defence Positions', who can be described as 'at risk' in securing an efficient and stress-free removal, such as those Members relocating for the first time or members relocating for the first time with new families, families with schooling concerns in the new location, or families with special needs. Evidence that DHA staff are all to be made aware of the need to respond to all Members' individual needs would be a positive addition to SOPs.

they do not accord with Defence housing policy or without considering cost-effectiveness. The importance of customer satisfaction is a driving force for the revised role of the CSM-R. Because current arrangements give DHA discretion to make decisions that can have significant cost implications for Defence, and there is no formal obligation on DHA to contain costs, Defence needs to consider instituting arrangements at least to oversight these decisions. These issues are taken up in the next chapter.

**3.45** In May 2003, Defence advised that the issue of allocation in accordance with Defence policy is currently being addressed with DHA.

## **Independent review of Services Agreement operation**

**3.46** Section 6.6.2 of the 2000 Services Agreement specifies that the parties agree to review the operation of the Agreement each year. A consultant was engaged for the first such review in January 2002. The consultant's final report was provided in April 2002.<sup>62</sup> DHA comments were included in the version of the report that Defence provided to the ANAO.

**3.47** The report concluded that 'the operations of the Services Agreement, from the perspective of compliance against the terms of reference, while currently meeting the day-to-day housing requirements of Defence, are able to be improved' and that 'most areas for improvement identified in this report are directly or indirectly related to poorly defined requirements and associated service levels'. The report made 33 recommendations, with various priorities. Defence records indicate strong criticism of the consultant's conclusions and other aspects of the report. Particular issues raised in the report are referred to in the next chapter.

**3.48** The ANAO indicated to Defence in October 2002 that the consultant's report had evidently been disregarded and that little action had been taken on its recommendations. In April 2003, Defence advised that it was working with DHA to implement those recommendations with which both parties agreed.

---

<sup>62</sup> Consultant's report titled *Report on the Review of the Operations of the Defence and Defence Housing Authority Services Agreement*, April 2002.

## 4. Performance Management of Services

---

*This chapter examines Defence processes to manage the performance of housing and relocation services; resolve issues outstanding at the time of signing the Services Agreement; and implement Defence housing policy.*

### Aim of the Services Agreement

**4.1** The aim of the Services Agreement is stated in clause 1.2.1 as follows:

This Agreement documents arrangements between Defence (as Purchaser) and DHA (as Provider) to satisfy the operational and business requirements of Defence for housing, accommodation and related services.

**4.2** Further, clause 2.3.3 specifies that:

Defence, as lessee and purchaser of services, will define its requirements, including standards, comprehensively, accurately, and in the time frames agreed by the parties to this Agreement.

**4.3** The Agreement deals with provision, maintenance and management of housing stock (as provided in the DHA Act). The Agreement provides for an annual five-year Defence Housing Requirement (also known as the Defence Housing Forecast<sup>63</sup>), which is divided into the elements of rank group entitlement and location.

### Outstanding issues on signature

**4.4** The documented intentions of the Defence negotiators for the Services Agreement indicate that much of the supporting detail referred to in the Agreement was still to be finalised when it was signed in August 2000. Some of the more significant outstanding issues were identified in the Agreement, with specific dates set for completion.

**4.5** The July 2000 DHA Management Report to the DHA board gave an update on the Agreement. It stated that a partnering workshop for senior participants was to be held in August 2000<sup>64</sup> and that it was important to agree contract management arrangements and timetables to resolve outstanding issues. The July

---

<sup>63</sup> There is no evidence that the Agreement has been formally varied to adopt the new name. The ANAO has, therefore, assumed that it does not represent a functional variation to the defined term 'Defence Housing Requirement' in the Agreement.

<sup>64</sup> The workshop was delayed until October 2000.

board meeting was informed of the following outstanding issues, with details of the area responsible for managing each issue and target completion date:

- Housing Management Instructions;
- Continuous Improvement Program;
- Key Performance Indicators;
- Terms of reference for the management committees;
- Capital Inclusions Charge;
- Property register;
- Rent bill processes;
- Allocations contract;
- Heritage properties (Heritage Conservation Plans); and
- Review of deemed effective markets.

4.6 Except for the last two issues, all were due to be completed within three months of the Services Agreement being signed. The ANAO found that their status at the time of audit (more than two years later) was as follows:

- Housing Management Instructions—still in draft form but in operation.
- Continuous Improvement Program—no progress.
- Key Performance Indicators—supporting detail still not finalised.
- Terms of reference for the management committees—finalised in November 2001.
- Capital Inclusions Charge—endorsed at the initial DDG meeting in December 2000.
- Property register—unclear whether Defence checked DHA’s July 2000 property register for accuracy. Defence records note that the initial register, detailing classifications for all stock, to be agreed by both parties by 30 June 2000, ‘did not occur’.
- Rent bill processes—completed, as required.
- Allocations contract—completed as the Relocations Services Agreement, signed on 20 December 2002.
- Heritage properties (Heritage Conservation Plans)—the Agreement specifies that these plans shall be documented by the end of the first 12 months. Defence has advised that the plans have not yet been received, despite requests to DHA.

- Review of deemed effective markets—the Agreement states that the parties agree to undertake further review and negotiation aimed at agreeing, by 28 February 2001, the classification of these areas. This review has not taken place. Defence continues to pay DHA an annual premium for the properties in this ‘market’. DHA had informed Defence in April 2000 that the premium (capital provisioning charge) was to be transitional and not to extend beyond the first year if the negotiations (through the review) were successful.

4.7 Housing Management Instructions, Continuous Improvement Program and Key Performance Indicators are of particular significance to Defence. The situation regarding each is detailed below.

## Housing Management Instructions

4.8 Defence’s Housing Management Guidelines, which pre-dated the Agreement, were to be jointly reviewed and replaced with Housing Management Instructions (HMIs), to be agreed and adopted formally by both parties. The Agreement specifies that the HMIs are to provide contemporary guidance and direction to Defence and DHA personnel on their responsibilities, and are to be completed within 12 months of signature of the Agreement.

4.9 Defence staff advised the ANAO that DHA was tasked with revising the HMIs. In July 2002, Defence provided the ANAO with a copy of ‘draft’ HMIs, which were ‘currently under revision’ and advised that ‘the HMIs are [an] internal DHA working document’.<sup>65</sup>

4.10 HMIs are to provide detail to underpin the Agreement. In effect, they are to specify the services that DHA provides to Defence. As the Agreement specifies that Defence is responsible for determining its requirement and providing this information to DHA, the ANAO considers that Defence should take responsibility for the instructions and for specifying the services it requires.

4.11 The advice that the HMIs are incomplete is not consistent with earlier advice in the independent review (discussed at paragraph 3.46). The review noted that ‘HMIs were not completed in the agreed timeframe, however, they have been in the field for some time in draft form and have now been completed.’ The situation regarding HMIs needs to be clarified. Meanwhile, the ANAO has referred to them in this report as though they are operational.

---

<sup>65</sup> Email from Defence to ANAO on 5 July 2002.

## Continuous Improvement Program

**4.12** In advice to shareholder Ministers before the Services Agreement was signed, Defence and DHA highlighted that a key aspect of the Agreement was cost reduction. Specifically:

The agreement commits both parties to work jointly, in the context of an annual ‘Cost Reduction Plan’ to reduce costs over time. Avenues for stock reduction include improved stock and vacancy management processes, better alignment of actual stock to current requirement, encouragement of more home ownership by Defence members, and an overall decreasing Defence population.<sup>66</sup>

**4.13** The avenues referred to in that advice have been noted elsewhere in Defence documentation as areas for improvement. The Agreement defines ‘Cost Reduction Plan’ but does not require the preparation of such a plan. Instead the Agreement provides for DHA to develop a continuous improvement program, or programs,<sup>67</sup> (CIP). It states:

The agreement focuses on cost effectively maintaining a suitable and adequate quality of service while putting DHA operations on a commercial basis that will satisfy shareholder requirements and first contain, then reduce the budgetary impact of the Defence Rent Bill over time through a program of continuous improvement consistent with Defence requirements and standards. (clause 2.2.4)

The Authority [DHA] undertakes to include in its Corporate Plan broad details of how it proposes to meet Defence requirements and specifications and will refer to agreed [ANAO stress] continuous improvement programs and cost control programs relevant to the services provided to Defence. (clause 2.6.1)

**4.14** Clause 11.1.7 refers to the Quality Maintenance Charge, which is levied weekly on all properties on the rent bill. The Agreement states that the charge will be subject to further review and negotiation in future years in the context of the CIP.

**4.15** Defence records indicate that DHA was developing a CIP in August 2000. It was to provide targets for cost reductions in the following areas:

- dead rent;
- temporary accommodation between postings;
- storage—in conjunction with the removalists;

---

<sup>66</sup> Defence–DHA minute to Minister for Defence and Minister for Finance and Administration, 15 June 2000.

<sup>67</sup> During development of the Services Agreement the terms Continuous Improvement Plan; Continuous Improvement Program; Cost Reduction Plan and Cost Reduction Programs were used interchangeably. The Agreement itself is unclear on this issue. For consistency, this audit report refers to the term Continuous Improvement Program (CIP).

- possible savings in travel costs due to improved itinerary management, pre-allocation and pre-selection of home;
- reductions in mismatch levels; and
- contribution to ADF retention objectives.

At the time, targets for the CIP could not be finalised until baseline costs had been agreed with Defence.

**4.16** Minutes of the December 2000 meeting of the DDG state that Defence sought three specific reports at the next DDG meeting. The reports were to be about dead rent, client satisfaction and continuous improvement.

**4.17** However, there is no evidence that Defence and DHA had agreed on a CIP. When the lack of a CIP was raised in the independent review of the Agreement's operation (see paragraph 3.46), DHA responded as follows:

The findings in this section are based on a false premise. The Services Agreement does not require a specific and separate continuous improvement program to be developed. DHA is already pursuing improvement initiatives in the context of its Corporate Plan and associated business plans. There is no need for a separate jointly developed continuous improvement plan. ...<sup>68</sup>

**4.18** The ANAO notes, however, that the HMIs, developed by DHA, state '[T]he parties will jointly develop continuous improvement and cost control programs for an efficient and cost-effective service while minimising Defence costs.'<sup>69</sup> Further, Chapter 14 of the HMIs states:

The responsibilities of the DDG are to ... review and approve Continuous Improvement Plans [Program] ... prepared by DHA and which have been reviewed by the DOC.<sup>70</sup>

The responsibilities of the DOC are to: ...

- Review and recommend to the DDG the CIP prepared by DHA on an annual basis and amended as required from time to time; [and]
- Review performance against the Services Agreement and CIP and will agree on action that is required to be taken from time to time to ensure performance targets are met.<sup>71</sup>

**4.19** Defence's media release on the Services Agreement, in 2000, stated that an overarching purpose of the Agreement was to reduce the overall cost of providing housing to Defence (paragraph 2.43). The ANAO notes that the

<sup>68</sup> Acumen Alliance, *Report on the Review of the Operations of the Defence and Defence Housing Authority Services Agreement*, April 2002, Section 9.1.6. p. 50.

<sup>69</sup> DHA Housing Management Instructions, (23 April 2002), Section 2.28.

<sup>70</sup> *ibid*, Section 14.3.

<sup>71</sup> *ibid*, Section 14.6.

Agreement only aims, among other things, to 'contain, then reduce the budgetary impact of the Defence Rent Bill over time through a program of continuous improvement' and that DHA will provide its services 'while endeavouring to reduce the overall impact of Defence housing assistance on the Defence budget (clauses 2.2.4 and 2.3.5). However, even these limited endeavours regarding costs have not progressed. There is still no evidence of a CIP. An overall cost reduction has not occurred.

## Key Performance Indicators

**4.20** The Services Agreement provides that the DDG will undertake strategic monitoring and review of the Agreement's effectiveness. The DDG would also monitor and review performance by both Parties annually against the indicators at Annex F to the Agreement and targets appropriate to those indicators agreed by the DDG.

**4.21** Performance indicators in the Agreement, generally known in Defence as Key Performance Indicators (KPIs), cover the general satisfaction of Defence families; the overall cost to Defence; meeting specifications in terms of services and accommodation; administration of payments; and sharing of risks. There is no link in the Agreement between the KPIs and payments due to DHA. As a result, the KPIs have limited utility and, regardless of DHA's performance against the indicators, Defence is still liable to pay to DHA the fees and charges as stipulated in the Agreement. For example, Defence in practice does not require DHA to provision 100 per cent of Defence's annual housing forecast, but has not set the acceptable level.

**4.22** In the first six months of the Agreement, performance indicator targets, definitions and reporting requirements were drafted. It was noted that many of the draft indicators had not previously been measured and that, for many of them, there was no baseline data to assist in establishing the targets. The Parties intended to develop, in the first six months of the Agreement, baseline information on the proposed measures and preliminary targets to improve performance. The targets were to be implemented on 1 January 2001 and reviewed after six months. It was expected that, by then, both Parties would be familiar with the data and general trends surrounding the indicators and able to agree on confirmed targets for the following year.

**4.23** Proposed detailed performance indicators were submitted to the DDG in December 2000. However, there is no evidence that they were finalised and implemented. Nor were targets appropriate to the indicators defined and agreed by the DDG. As a result, there is no firm management framework to assess the services or to give effect to the KPIs.



4.24 Since mid 2002, DHA's monthly DOC Operations Reports contain quantitative management information. Defence does not undertake random audits to obtain independent verification of these reports, as envisaged in the proposed contract management strategy principles mentioned in paragraph 3.20.

4.25 Late in 2002, the DOC agreed to develop detailed performance indicators, as recommended by the independent review (see paragraph 3.48).

## Recommendation No.2

4.26 The ANAO *recommends* that Defence endeavour to complete action on those significant transitional issues that have been outstanding since the Services Agreement was signed in 2000, to help realise the benefits envisaged by the Agreement.

### *Defence response*

4.27 This recommendation is agreed and relevant planning has already commenced for implementation in the 2003–04 Financial Year to achieve completion of transitional issues as well as introduction of an improved framework for managing housing and relocation services. It is intended to address this issue and appropriate planning with DHA at the 13 May 2003 meeting of the Defence Domiciliary Group.

### *DHA response*

4.28 DHA agreed that a number of transitional matters have not been fully implemented and that it is important for the outstanding matters to be resolved as soon as possible. Further, DHA has put submissions to Defence to finalise the more important outstanding matters, including the Key Performance Indicators, Housing Management Instructions and Heritage Conservation Plans. Continuous improvement is embodied in the DHA Corporate Plan. Nevertheless, ANAO's Recommendation No.2 is supported.

## One stop shop

4.29 Defence records in 1998 and 1999 indicate that, when a 'one stop shop' approach for housing service was envisaged (see paragraph 2.54), it was to be provided by Defence personnel. The DHA role of landlord was to be distinctly separate. DHA now provides all these services through a one stop shop, and acts as landlord, Defence's Rent Allowance (RA) delegate, and provider of tenant management services (allocations and relocations). This appears to place DHA in a situation of potential conflict of interest.

**4.30** Under the Services Agreement, there is a primary relationship between Defence and DHA, with Defence, as lessee, responsible for overall charges incurred for provision of housing and any house damage caused by a member.

**4.31** On occupying a Service Residence (SR), a member signs a *Tenancy Agreement for Service Members*,<sup>72</sup> which is a formal contract between Defence and the member. DHA administers these agreements for Defence. As this is a nationally applied document, and is not between the actual tenant and landlord, access to individual State housing/rental dispute mechanisms is difficult. Instead, where there are disputes between DHA, the member and/or Defence, an internal dispute resolution process is available. The Joint Housing and Accommodation Review Committee<sup>73</sup> considers members' complaints about the provision of SRs that cannot be resolved locally. This enables members to seek remedy for complaints in respect of the services provided by DHA. PACMAN states that a member who is still dissatisfied, may proceed through the ADF's formal 'Redress of Grievance' process.

**4.32** With DHA responsible for tenant management (under the Relocations Services Agreement), DHA acts as Defence's agent with the member. Thus, DHA receives full market rent and tenant management fees; members pay their set contributions; and Defence is responsible to DHA for the balance of the charges and costs. It is unclear to the ANAO how DHA can provide both landlord services and tenant management without being responsible for the full costs resulting from its decisions. In addition, Defence does not have ready visibility of the full costs involved in the provision of housing and relocation services to ADF personnel.

**4.33** This issue was discussed in the DER Secretariat Papers (see paragraph 2.46). The DER proposed that the one organisation would be responsible for management of the whole process of removals and housing allocation and accountable for the costs involved. This is discussed further in Chapter 5.

## Contract management structure

**4.34** As mentioned in Chapter 3, the Services Agreement established certain management bodies. That chapter also discussed strategic and operational management frameworks.

---

<sup>72</sup> This agreement is similar to a lease but guidance is provided by way of Defence's *Pay and Conditions Manual* (PACMAN) and Defence Form AA614: *Tenant responsibilities*.

<sup>73</sup> The Committee comprises:

- Director Housing Policy or representative (Chair and secretarial support);
- Defence Corporate Support representative;
- Manager Client Services DHA, or representative; and
- Representatives from the Service Headquarters.

4.35 DRH, located in Canberra, is responsible for housing and relocation services provided by DHA and Toll Transitions. When required, DRH seeks input from regional CSM-Rs. At the end of 2002, a national database, managed from the Sydney regional office, was established to capture data on regional issues regarding housing and relocation services. Initial problems with access are being resolved. The ANAO understands that Standard Operating Procedures for the database are being developed.

4.36 At the time of audit, there was no clear structure for management of housing and relocation services. Some regional offices partly adopted the proposed management structure (see paragraph 3.21), but other regional offices did not adopt the structure. There was only ad hoc Defence oversight of: the provision of housing stock, and particular activities such as timing of acceptance into service; long-term planning of stock requirements in particular regions; and cost implications associated with decisions on property sale and leaseback. These activities also relate to ongoing management of the Defence's Housing Forecast (DHF) against the DHA Provisioning Schedule and the monthly rent bill, discussed below.

### **Appointment of Contract Authorities and delegated Managers**

4.37 Clause 6.1 of the Services Agreement details the appointment of a Contract Authority in both DHA and Defence. For Defence, the Contract Authority is Head Defence Corporate Support. Clause 6.1.2 specifies that 'each party will be responsible for defining the roles and responsibilities of its Contract Authorities and their delegated Managers.'

4.38 At the time of audit, the roles and responsibilities of Defence's Contract Authority and delegated Managers were not documented. The ANAO notes that, at the time of contract signature, in 2000, the delegated Managers referred to in the Agreement were the regional contract management staff. This is no longer the case if the role of the CSM-Rs is to monitor and assist in client satisfaction.

4.39 As the Services Agreement has been in operation for over two and half years, and with the Relocations Services Agreement signed in December 2002, the ANAO considers that these identified roles and responsibilities should be articulated and widely disseminated as a matter of priority. In April 2003, Defence advised that it agreed with this view.

### **Contract variations and management decisions**

4.40 Decisions about management of the Services Agreement made by the DDG, DOC and the Defence Business Forum may have the effect of varying the

Agreement. Annual price adjustments, resulting in revised costs for the various management fees, could be viewed as modifying the original Agreement.

4.41 When the Agreement was introduced in 2000, Defence staff had ongoing difficulty in interpreting it. Defence records state that ambiguity in some of the clauses was compounded by the conceptual way the Agreement was presented. Records also indicate that there was lack of corporate knowledge of the intent of the Agreement at the 'drafting level' by DCS staff. To redress the situation, a workshop was to be held in October 2000 to work through the Agreement to ensure a consistent and coherent understanding of the Agreement. The outcome of the workshop is unclear and is not referred to in the ongoing management of the Agreement.

4.42 At the time of audit, Defence held no complete set of briefing papers and minutes for the management bodies specified in the Agreement. Nor was there a complete contract management file of consolidated decisions concerning the Agreement or the charges under it.

4.43 Better practice principles on contract management stress the need to keep contract documentation together; to facilitate efficient management; and to allow for visibility of decision-making. In preparing for negotiation of variations, contract managers need to have relevant and accurate contract documentation and performance information. Further, contract managers need to monitor the type and number of contract variations made against a contract.<sup>74</sup>

4.44 The Services Agreement is not complete without all variations that form part of the contractual relationship, and a record of any 'understandings' on the operation of the Agreement. Actions and decisions by Defence in managing the Agreement may unwittingly invoke the rule of estoppel, which means that behaviour by a party to a contract may preclude the party from a course of action provided by the contract. The ANAO understands that DRH staff are now addressing the situation.

## **Risk management**

4.45 The Defence Risk Management Implementation Plan states 'formal risk management is no longer discretionary and is now considered an essential component of public sector management and sound corporate governance'. The document states that 'the *Defence Risk Implementation Management Plan* [sic] communicates the joint commitment of the Secretary and the Chief of the Defence Force to the formal and systematic management of risk throughout Defence.'<sup>75</sup>

---

<sup>74</sup> ANAO *Contract Management*, Better Practice Guide, February 2001, Canberra, pp. 55, 60.

<sup>75</sup> *Defence Risk Management Implementation Plan 2002–2003*, April 2002, Foreword and Introduction.

**4.46** In 2000, prior to handover of services to DHA, Defence engaged a consultant to assess risks under the proposed Services Agreement in consultation with Defence staff. Subsequently, risk management plans were developed. The identified risks, such as Defence business objectives not being achieved because the proposed agreement does not adequately reflect Defence's requirement, were not addressed prior to the Agreement being signed and implemented.

**4.47** The Directorate of Relocations' 2001–02 business plan identified broad challenges, opportunities and strategies but omitted reference to risks in the housing and relocations area. The challenges and opportunities identified for 2001–02 had not been met or realised at the time of audit. One of the strategies, on development of relationships, is being progressed. Another strategy, on development of a reporting and monitoring regime, is partly complete.

**4.48** A regional CSM-R office that the ANAO visited had identified key risks but it is unclear how this fits into the broader scheme of managing the housing and relocation services provided by DHA. It would be appropriate for Defence to identify, assess, treat and manage risks in the Defence housing program systematically, as envisaged in the Risk Management Implementation Plan. In April 2003, Defence advised that Corporate Support and Infrastructure Group will undertake these risk management tasks as suggested by the ANAO.

### *Conclusion*

**4.49** The ANAO considers that Defence needs to implement a sound framework for management of housing and relocation services. Roles and responsibilities of Defence staff involved with delivery of these services also need to be articulated and disseminated as a matter of priority. Decisions on management of the Agreements should be kept in a consolidated format for ready reference and consistency of management. Areas of risk associated with housing and relocation services should be identified, assessed and managed in order to minimise such an occurrence.

**4.50** In response to the ANAO, Defence agreed with the points raised by the ANAO and said it was addressing them. Defence added that 'a more interventionist contract management regime will be put in place.'

## **Defence Housing Forecast**

**4.51** The Services Agreement specifies when the following documents are to be provided: Defence's draft annual Defence Housing Forecast (DHF) to DHA; DHA's annual Provisioning Schedule to Defence; and a Defence/DHA agreed housing schedule for the coming year(s). Evidence shows that the documents were not provided on time.

**4.52** Defence is reviewing the way it develops its DHF. At the time of initial audit fieldwork, there was no formal consultation mechanism to ensure that all appropriate areas in Defence strategic planning were consulted. The updated DHF seemed to depend on feedback from regional staff, combined with DRH checks with various contacts at the national level. DRH advised regional staff that annual submissions to the housing forecast are to be developed in consultation with the regional DHA Housing Management Centre (HMC) manager.

**4.53** The 2002 independent review recommended that consideration be given to reviewing the DHF against an econometrics framework. In response to that, and to ANAO queries about the rigour of DHF modelling, the issue was raised at the November 2002 DOC meeting. It was suggested that Defence and DHA jointly fund a consultant to model the current stock and Defence requirement as a means of achieving a more robust DHF.

**4.54** DHA acknowledged Defence's difficulties in preparing the DHF but indicated that better management of the current, albeit inaccurate, process might be more fruitful than engaging a consultant. DHA also noted that the responsibility for providing the DHF was Defence's. It is therefore unclear to the ANAO why the HMIs state that DHA's HMC Managers are responsible for coordinating preparation of the DHF at the local level.

**4.55** In April 2003, Defence advised the ANAO that a Statement of Requirement for a consultancy to advise on alternative methodologies for DHF development has been drawn up. Defence noted that the review and resultant revised methodology will be aided by the imminent Defence census.

**4.56** In the last two years, DHA provided its Provisioning Schedule after the expected annual Defence Budget had been approved. The ANAO understands that, to the extent that the DHA Provisioning Schedule total cost was not significantly different to the proposed housing budget, Defence costings were not adjusted.

**4.57** The ANAO notes that, in 2002, the DHA Provisioning Schedule was provided to Defence in two parts: one detailed housing stock provision against the draft DHF, and the other set out costs associated with the Provisioning Schedule. Defence reviewed the expected costs but there was little evidence that it assessed details of the Provisioning Schedule in order to understand fully how DHA proposed to meet the draft DHF.

**4.58** ANAO understands that there has been no overall budget or provisioning target fixed for the current financial year (as the DHF is said to be a 'living, breathing document'). This makes it difficult to manage flow-on action defined in the Agreement. For example, Defence must give five years' notice of

a 5 to 20 per cent variation of a housing stock requirement in Canberra. But, if there is no fixed requirement number, when does the five year period start and, more importantly, who pays for the variation and for how long? In the past, DHA has not held Defence to the timings of any variations as specified in the Agreement. However, in recent DOC meetings, DHA highlighted the significant reduction in housing numbers in the DHF and noted that the warning period in the Agreement for such reductions had been breached.

**4.59** DRH does not provide DHA's Provisioning Schedule to Defence regional staff for information or management of housing activities in their particular region. Evidence indicates that delivery of services (as charged in the monthly rent bill) is not checked against expected Provisioning Schedule costs. Nor was there evidence that the timing of expected acquisition and disposal of housing stock is checked against the changes ('ons and offs') in the rent bill.

**4.60** The ANAO was advised, in February 2003, that this kind of financial/contract management occurs at weekly meetings between Defence and DHA staff. However, that advice was not consistent with earlier advice from DRH staff that this kind of checking did not occur. The ANAO considers that minutes of these meetings should be kept for visibility and accountability, particularly as the decisions made may have a financial impact on Defence.

**4.61** The ANAO considers that Defence's operations associated with the DHF, as required by the Services Agreement, and the level of scrutiny and ongoing management of stock provided against DHA's Provisioning Schedule, could be further improved in the interests of cost effectiveness, visibility and accountability.

### Recommendation No.3

**4.62** The ANAO *recommends* that Defence:

- a) fulfil its obligations regarding submission of its annual housing forecast under the Services Agreement, to improve overall housing management and avoid liability for additional costs; and
- b) document its ongoing decisions that modify its annual housing forecast, in the interests of visibility of, and accountability for, those decisions.

#### *Defence response*

**4.63** This recommendation is agreed. Defence has already implemented strategies to ensure improved performance in these areas.



## Provision and allocation of housing stock

### Provision of housing stock

**4.64** The Services Agreement focuses on the provision of housing stock (houses, adjoining townhouses or apartments) in order to meet Defence's requirement. The Agreement specifies that a performance indicator ('measure') to be used to assess effectiveness of services provided by DHA to Defence is '(a) the extent to which Defence families are satisfied with the quality of housing.'<sup>76</sup> This measure does not take into consideration whether houses occupied by Defence families accord with Defence housing policy and is consistent with what Defence has stated it requires.

**4.65** Another measure states:

(d) the extent to which Defence receives accommodation that effectively meets its specifications and requirements, measured by the frequency and trend of mismatches between numbers and rank group entitlements and DHA provisioning.<sup>77</sup>

**4.66** Defence does not ensure that DHA provides housing stock as requested in the DHF. Nor does it seek, throughout the year, reports from DHA either confirming that Defence's requested number of housing stock in each Group have been provided, or explaining that the request could not be met and that there were 'mismatches' between requirements and provision. Annually, Defence reviews the current provision of housing stock as part of the DHF process. To meet the DHF, DHA's annual Provisioning Schedule proposes provision of SRs (housing stock owned or leased by DHA), with the remainder of Defence's requirement to be met by RA for members to lease houses from the private market. The Provisioning Schedule contains a mismatch schedule against the draft DHF but there was no record that Defence checked DHA's performance against Defence's defined requirement, nor its proposed provisioning for the coming year. Rather, Defence focuses on proposed overall stock numbers in specific regions rather than the Group of houses to be provided.

**4.67** Each month, DHA provides to the DOC a retrospective DOC Operations Report. It refers to two different numbers for housing stock—the number of properties on the rent bill and the (lower) number of rent bill stock. Until the November 2002 report, the numbers differed but without explanation as to the differences. When asked by the ANAO, DHA explained that the former were all the stock that Defence was paying rent for and that the latter excludes those houses for which Defence carries the vacancy risk but are leased by DHA to the private market. (The November 2002 report does explain the difference.)

---

<sup>76</sup> Annex F of the *Services Agreement on Housing and Related Requirements*.

<sup>77</sup> *ibid.*



**4.68** Defence is responsible for paying rent and the additional charges on all properties on the rent bill. The rent bill is then increased by the extra letting fee per property and then reduced by the income received by the private market tenants (who may be ADF members in receipt of RA).

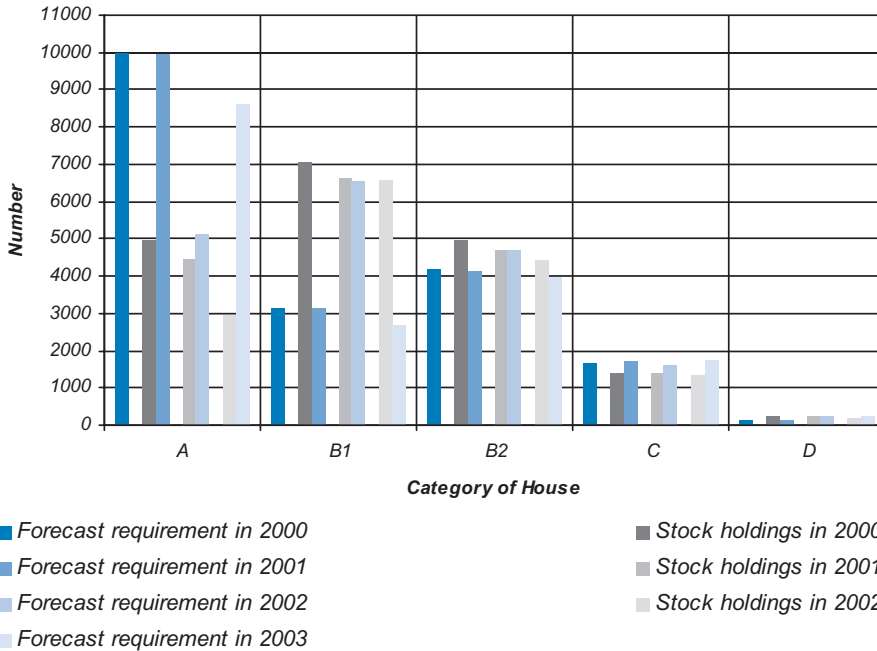
**4.69** The monthly DOC Operations Report provides national performance reporting on the rent bill stock and RA stock compared to the DHF. There is also reporting of the rent bill stock against DHA provisioning targets, and the RA stock against DHA provisioning targets. Graphs provided in the report relate only to the rent bill stock, not the higher total number on the rent bill. There is no record in DOC minutes that this anomaly has been raised. The graphs also do not illustrate the provision of stock against the number in each housing Group that Defence requires. Defence does not separately assess this distinction.

**4.70** Pursuant to performance measure (d) above, DHA, in its monthly report, assesses mismatches of member allocation against housing policy requirement rather than mismatches of housing stock provision against DHF. The latter kind of mismatch is the more significant, and is illustrated in Figure 4.1.

**4.71** Figure 4.1 sets out Defence's requested number in each housing Group over the last three years, and DHA's responding stock provision. Figure 4.1 illustrates that, except for the forecast requirement in 2002, the Defence requirement, particularly for Groups A and B1, was quite different from the provision of housing stock. Each year, the stock holdings are determined and the following year's housing forecast is updated. Late in 2001, the DHF for 2002 was adjusted to be in line with stock holdings at the time although there had been no significant change in the composition of the ADF population. Late in 2002, when the DHF was being revised, the error in the DHF was noticed and the draft 2003 DHF was adjusted as illustrated. The housing stock composition could not be so easily adjusted.

**Figure 4.1**

**Defence housing requirement and DHA actual stock provision**



Note: excludes Group A1 and E houses as their numbers are insignificant in the scale of the figure.  
 Source: ANAO analysis based on Defence data.

4.72 When the Services Agreement was introduced in 2000, Defence redefined its housing requirement. At that time, Defence staff expected that DHA, while seeking to reduce surplus stock, would take into account the need to align the housing mix more closely with the demographics of Defence families. Defence did not expect DHA to quit adequate and suitable Group A and B1 houses to avoid having to dispose of surplus Group B2 and C houses. There is no evidence that this view was communicated clearly to DHA. Defence actions, and acceptance of stock management decisions by DHA, have resulted in the stock composition being quite different to that indicated by the demographics of Defence families and their entitlement.

4.73 Defence advised the ANAO in April 2003 that it does not expect DHA to provide 100 per cent of each Group in the DHF. As well, the ability of members to nominate occupancy of a house one group above or below group rank entitlement is a critical policy flexibility for members, given Defence’s obligation to provide accommodation assistance when DHA are unable to provision stock numbers for each category sought by the DHF. The ANAO notes, however, that DHA’s decision to reduce housing stock in the lower groups, below numbers that Defence actually requires, has cost implications for Defence.

4.74 There is no readily available documentation in Defence on its ongoing management decisions on DHA's provision of housing stock nor on the acceptable level of housing stock to meet Defence's requirements. In practice, Defence largely accepts what DHA provides, although this does not always meet Defence's specified requirements.<sup>78</sup> This is particularly evident in the case of Group A housing stock.

### *Group A houses*

4.75 Over the last 10 years, the issue of Group A houses has been discussed extensively by Defence and DHA. In its 1994 report, the ANAO considered that Defence should either confirm Group A as the minimum standard for new ADF housing or formally adopt a new minimum standard based on community standards.<sup>79</sup> The ANAO made a recommendation on this issue, which Defence agreed to, in principle.

4.76 In July 1999, DHA advised its regional staff that it would no longer build Group B1 houses with 3 bedrooms without en suites. Subsequently, Defence Housing Policy (in DPE) advised Defence regional staff that the immediate provisioning effect of this DHA advice is that DHA will not be supplying any more 3 bedroom Group A dwellings and that the possible flow on effect to married quarter classifications is to be carefully considered 'over the next month or so'.

4.77 Defence policy states that Group A houses are the basic SR (see paragraph 1.7). They are for Army private or corporal (or equivalent in Navy and Air Force). In 2000, Defence's forecast guidance noted that the requirement for this Group was approximately 49 per cent of ADF members with dependants. The ANAO understands that the group rank entitlement contribution for Group A houses was originally calculated assuming that the member is occupying this standard of house. (The housing subsidy was calculated per group of house Australia wide.)

4.78 Defence records of August 2000 indicate that the minimum standard of residence had become Group B1 by default. Further, DHA had not met the Defence housing requirement in relation to Group A and B1 for some time 'as a result of the Authority's deliberate refusal to acquire Group A houses'. Correspondence also notes that DHA 'is driving up Defence's costs by disposing

---

<sup>78</sup> DHA informed the ANAO that housing standards must be consistent with the expectations of ADF members and their families, and to do so must keep pace with community standard changes in house size and design. The ANAO accepts that customers' (ADF members') expectations are important, but DHA's formal client is Defence. Under the Agreement, Defence requires DHA to provide suitable housing that meets Defence's operational needs. Housing stock numbers and composition are to accord with Defence's specified requirements and policy.

<sup>79</sup> Audit Report No.13 1994–95 *Australian Defence Force Housing Assistance*, p. 31.

of [Group] As and replacing them with higher classification houses.’ Defence foreshadowed in 2000 that the housing classification system must change because of the diminishing stock.

4.79 Defence policy specifying Group A housing as the minimum standard remains unchanged. The DHF specifies a requirement for Group A houses, but DRH has, through acceptance of DHA’s annual Provisioning Schedule, allowed DHA to readily dispose of many such houses. The Group A stock provided is now approximately a quarter of the specified Group A requirement, as shown in Figure 4.1. In effect, Defence has allowed DHA to drive the change in its housing policy. Disposal of the older housing stock also has significant implications for Defence regarding cost and, for ADF members, regarding distance from the Defence base where they work.

4.80 Defence advised the ANAO that there was agreement with DHA that, for stock replacement purposes, Defence accepted that DHA would not provide Group A houses (as they are no longer community standard for new houses being built). Further, ‘DHA commercial advice in this respect was accepted and not formally tested by Defence on the basis that such commercial decisions are DHA’s core business.’ Defence agreed, however, that the classification system currently used to provide housing to members needs revision. DPE’s Personnel Steering Group, chaired by First Assistant Secretary Personnel, has been given responsibility for guiding the development of a new classification system for ADF housing. The Steering Group is due to examine some models and costing for a new system in May 2003.

### *Group E houses*

4.81 In 1998, the then CDF instigated introduction of a new housing Group, Group E. Major Generals (or equivalent) and above are entitled to houses in that Group.<sup>80</sup> It was introduced to allow an increase in the member contribution paid by these senior officers, as the houses they occupied were far superior to standard SRs. To meet representational responsibilities of the position, the houses include a range of amenities above those required in a normal domestic situation. Many Group E houses are renovated heritage properties located on base. Member contributions were increased to 50 per cent of the average ‘market’ rent of the house.

4.82 At the time of audit, Defence was revising the methodology on which Group E member contributions are based. (Some members at this entitlement level had queried whether the \$415 weekly contribution was appropriate.) The

---

<sup>80</sup> An exception to this rule is permitted where the house is tied to a specific position, which may on occasion be occupied by a lower ranked officer.

DHF identifies a requirement for 12 of these houses. Currently only six are owned by DHA. Two of those (on-base) were vacant and had been for some time. The rental (excluding other charges) Defence pays to DHA varies from \$522 to \$975 per week. Where a member receives RA to occupy a private house rather than a DHA Group E house, the rental ceiling is \$830 per week for Canberra and Melbourne, or \$1370 for Sydney. This means that the most a member will pay is \$415 per week (anywhere in Australia), with Defence paying the difference up to the ceiling amount.

**4.83** In March 2003, the ANAO was advised that the Minister for Defence had reduced the member contribution required for Group E houses to \$320 per week to reflect more reasonably the cost for which the member should be personally responsible. The RA ceiling for this group did not change. As mentioned above, a steering group is to guide development work on a new housing classification system.

**4.84** Defence said that it might propose to the Minister that certain on-base Group E houses be tied to the top five ADF appointments. The ANAO notes that such a proposal, if adopted, would help to minimise vacancy costs of these houses in the longer term.

## **Allocation of housing stock**

**4.85** The Services Agreement of 2000 concerns DHA's provision of aggregate housing stock numbers to meet Defence's specified requirements. This is different to the service of allocating individual houses from that stock to members. DHA now provides the latter service under the Relocations Services Agreement of 2002. Relevant policy is set out in Defence's *Pay and Conditions Manual* (PACMAN), with the HMIs providing operational detail.

**4.86** Defence policy states that:

An offer of a service residence is considered reasonable if it satisfies the requirements of rank, dependants and proximity to the member's workplace. In relation to rank, an offer is reasonable if a service residence is at one group above or one group below group rank entitlement.<sup>81</sup>

**4.87** The policy elaborates that, where a member is allocated a SR one group above group rank entitlement, the rent appropriate to the member's group entitlement is to be charged. For example, a member with a Group A rank entitlement, who is offered a Group B1 SR because there is no suitable Group A house available, would pay only the Group A contribution. Alternatively, a member allocated a SR one group below group rank entitlement would pay the

<sup>81</sup> *Pay and Conditions Manual* (PACMAN), AL11 (September 2002) Chapter 1–Part 1–34, paragraph G7.68.

specified contribution for the residence occupied, depending on family composition. For example, a member entitled to a Group B2 SR but allocated a Group B1 SR because no suitable Group B2 is available may pay the lower Group B1 contribution. Regardless of the member's contribution, Defence must pay DHA the full market rent for the property (plus charges). Sometimes, members may elect to occupy housing above or below their entitlement, with the member contribution being adjusted accordingly.

**4.88** A Key Performance Indicator in the Relocations Services Agreement is that DHA must report the percentage of allocations that do not comply with Defence housing policy. This refers to members housed in SRs two or more classifications above their entitlement. It indicates that allocating an SR one up, or one down, is suitable and in accordance with Defence policy.

**4.89** At the time of audit, the monthly DOC Operations Reports (see paragraphs 4.67 and 4.69) included graphs on mismatches between a member's group rank entitlement and the Group of housing allocated. In accordance with housing policy, the report did not consider it a mismatch to have a member occupying a house 'one up or one down' from their group rank entitlement. In the case of Group A members, it is not deemed a mismatch if the member is allocated even a Group B2 house.

**4.90** Defence advised, in April 2003, that housing policy is becoming more flexible with the introduction of 'Defence Choice Housing' initiatives. This has been introduced in some regions, for example the 'Carey Street Development' in Darwin. On the basis of choice, a member pays the rent applicable to the group of housing they occupy, not their group rank entitlement. The Group is determined by the market rent for the property and not necessarily the number of amenities offered. The ANAO considers that Defence needs to consider the cost implications of this initiative and the flow-on impact on Defence's ability to manage DHA's performance under the Services Agreement.

**4.91** More generally, the ANAO considers that DHA's provision of housing stock numbers against the DHF, and DHA's allocation of individual houses in accordance with Defence housing policy, are two separate issues that require separate consideration in Defence. At the time of audit, only one mismatch report was included in the monthly DOC Operations Reports, and this related to mismatches in the individual housing allocation process under the Relocations Services Agreement. As a result, the impression is that DHA can provide stock against Defence's requirement in the same way that housing stock is allocated to individual members, that is, stock 'one up or one down' is acceptable. The ANAO considers that this should be an exception rather than the rule. Enabling DHA to provide stock one up or down against the Defence requirement without close scrutiny results in the more likely occurrence of members being allocated

a house different from their entitlement and Defence being responsible to accept the often lower member contribution.

**4.92** A new housing classification that is being developed at present may overcome some of these difficulties. In the meantime, however, Defence needs a separate report on mismatches in the aggregate provision of stock process under the Services Agreement.

**4.93** In response to the foregoing paragraphs Defence advised that it deems this a 'mismatch' and will discuss it with DHA with a view to closer monitoring. Defence also said that the Relocation Services Agreement requires reporting on allocation within Defence policy for KPI purposes.

## Vacancy management reporting

**4.94** The Defence rent bill paid to DHA inevitably includes rent on vacant houses. This is known as dead rent. The 1994 audit report estimated that dead rent cost Defence \$30 million in 1993–94 and recommended action to minimise such costs.

**4.95** Vacancy management was a major issue in negotiations for the 2000 Services Agreement. One of the main outcomes that Defence sought was that vacant properties, and therefore dead rent, would be a thing of the past. Defence understood that it would be responsible for pre-disposal vacancy charges relating to housing stock that Defence decided was no longer required, and that DHA would be responsible for inter-tenant vacancies. Defence expected that vacant properties would be 'automatically removed' from the rent bill.

**4.96** It is apparent, however, that clause 9 of the Agreement does not clearly accord with the intent and understanding of the Defence negotiating team. Clause 9 specifies that either Defence or DHA is responsible for the risk of vacant properties in the particular 'market'. For example, clause 9.1.2 (b) states that, for properties classified as Effective Market, the DHA will assume vacancy risk for all DHA stock, including leased stock, except:

- properties held at Defence request for Defence purposes which inhibit disposal or private rental of the property by the DHA;
- vacancy risk in relation to major changes to requirements for which warning time is inadequate; and
- vacancy risk in relation to the period of three months after Defence confirms that a property is surplus.

**4.97** The ANAO understands that, in practice, Defence has been responsible for all houses on the rent bill for the first three months of vacancy, even if the vacancy



is a result of DHA's allocation processes (inter-tenant vacancy). After that time, if Defence wants the house for future requirements in the short term, the house will continue to remain vacant and Defence will pay all the charges involved.

**4.98** Defence's intended application of the vacancy management arrangements in the Agreement has not occurred. It is not evident why vacancies are managed differently to the manner stated in clause 9. Defence's acceptance of this situation may invoke the rule of estoppel. The ANAO suggests that Defence examine vacancy management practices. Defence records indicate that dead rent cost Defence some \$20 million in 2001–02.

## **Verification of reporting on vacant houses**

**4.99** As mentioned in paragraph 4.67, DHA's monthly DOC Operations Reports refer to two different numbers for housing stock: the number of properties on the rent bill and the rent bill stock. The November 2002 Report indicated that 1741 houses were vacant during that month. If this level of vacancy continued for the year, it would amount to an annual rent cost of \$23.5 million (excluding other Services Agreement charges).

**4.100** The figure of 1741 vacant houses appears to be inconsistent with other Defence data. In 2002, Defence asked DHA to calculate the Defence rent subsidy against the target of 50 per cent. DHA calculated it as 51 per cent, based on a comparison of reports from its TAPS<sup>82</sup> and data in Defence's ADFPAY system.

**4.101** To better understand the different reports and data sources regarding vacancy charges, the ANAO compared the November 2002 DOC report with the DHA/Defence data used in the housing subsidy calculations.

**4.102** The DOC Report stated that there were 17 024 properties on the rent bill, or 16 239 if properties leased to the private market (785) are removed. TAPS indicates that 14 437 houses were occupied, but only 13 981 houses were recorded in ADFPAY. This indicates that there were 2258 properties not registered in ADFPAY and, therefore, Defence receives no member contributions for them. This results in 517 more properties vacant than reported in the DOC Report. There are underlying management issues, such as the timeliness of data entry, that would need to be addressed to reconcile the differences. The ANAO was not aware of any Defence attempt to do this.

**4.103** The ANAO sought to check the accuracy of the subsidy calculation and the amount of dead rent paid to DHA, by comparing the actual amount of member contribution collected (captured in ROMAN) with the amount of rent paid to DHA (noted in internal spreadsheets). (The data are in Table 5.1.)

---

<sup>82</sup> Tenant Accommodation and Property Management System.



**4.104** That data indicated that Defence's subsidy was some 60 per cent of the rent to DHA in 2001–02.<sup>83</sup> The difference between the two figures for the Defence subsidy (51 per cent and 60 per cent) indicates that some \$22 million<sup>84</sup> had either not been collected from members, or was being paid on vacant stock.

**4.105** There are a number of possible reasons for this difference, such as vacant properties on which member contributions are not collected (dead rent); the cost impact of members in properties above their group rank entitlement; and the accuracy of input to the ADFPAY system.<sup>85</sup> Defence acceptance of the calculation of the rental subsidy at 51 per cent indicates that the number of vacant properties, and therefore the amount of dead rent paid, is different from that reported. It is evident that the cost to Defence of dead rent on vacant houses is not 'a thing of the past' as expected on introduction of the Services Agreement. If Defence is to achieve this outcome, it will need to assess the validity of data it receives from DHA and actively manage this issue.

**4.106** In advice to the ANAO in April 2003, Defence acknowledged the need for better visibility and control of the dead rent bill and will seek to improve reporting on this issue. Defence noted that there has been ongoing discussion between Defence and DHA regarding development of an appropriate report construct and for greater ability to analyse the data presented through refinement of the report. Defence also noted that the problem has been exacerbated by DHA's difficulties with internal data management systems.

## Authority for implementing Defence policy

**4.107** Defence has formally authorised certain officers in DHA to make decisions on implementation of Defence housing and relocation policy.<sup>86</sup> For example, DHA may increase a member's rent ceiling (resulting in an increase in the amount of RA payable to a member). In this case, the member continues to pay his or her group rank entitlement contribution but the Defence subsidy increases to cover the gap. A similar situation can arise where a suitable Group A house is not available for a Group A member. In this case DHA can allocate a suitable Group B1 house to the member. Defence pays the Group B1 rent to DHA but recoups only the Group A contribution from the member. This is a common

---

<sup>83</sup> Rent to DHA (\$245.4m) minus member contributions (\$97.87m), divided by the amount of rent to DHA (\$245.4m).

<sup>84</sup> Rent to DHA (\$245.4m) multiplied by 49 per cent, minus member contributions (\$97.87m).

<sup>85</sup> In April 2003, Defence advised that, as part of its strategy for reducing dead rent, it has recovered in excess of \$750 000 from rent not collected from overseas exchange officer programs.

<sup>86</sup> The Chief of the Defence Force's Instrument of Authorisation provides a consolidated list of all authorised persons who may make discretionary decisions on ADF pay and conditions of service determined under sections 58B and 58H of the *Defence Act 1903*.

occurrence. The ANAO estimates that, as a result, Defence had forgone some \$4.486 million in 2001–02 in member contributions.

**4.108** As mentioned earlier, client satisfaction is a key performance measure under the Services Agreement but there is a risk that DHA may grant members' 'wishes' regarding housing even when they do not accord with Defence policy. For example, policy specifies that members who choose not to accept DHA's offer of a suitable SR from DHA's housing stock (rejection of reasonable offer) forfeit their eligibility for RA on a non-SR house. DHA has authority to manage the process on Defence's behalf. There are cases where members have been provided with RA on a private house even though a suitable DHA house was available at the time and no other suitable occupant was available to occupy the house.

**4.109** Defence's CSM-Rs are not tasked with checking local decisions of this kind made by DHA's HMC Manager. Nor does DRH seek or receive reports on these matters. Defence could consider instituting arrangements at least to oversee these decisions because they can have significant cost implications for Defence, and there is no formal obligation on DHA to contain costs. Moreover, DHA decisions in this area resolve member satisfaction issues only in the short term. Defence cannot budget appropriately for the flow-on housing costs involved (or decreased member contributions). This also has an impact on the accuracy of DHRP's calculations in updating rental ceilings and member contributions.

**4.110** In May 2003 Defence advised the ANAO as follows:

DHA currently has two different delegations in relation to Rent Allowance (RA). The first of these is approval of RA in situations where DHA is unable to provide a suitable Service Residence of the classification required by the member. The second relates to extension of the RA ceiling in those areas where policy defined limits do not match changing regional and/or seasonal rent costs. Defence plans to withdraw this latter delegation from DHA. Monitoring of the outcomes of RA approval provided under the first of these delegations has been the subject of on-going refinement of reporting through the Domiciliary Operations Committee.<sup>87</sup>

**4.111** Defence's visibility of, and accountability for, decisions relating to housing assistance was raised as an issue in the DER, in 1997 (see paragraph 2.46). The issue is of greater concern now that such decisions are made outside Defence. Ensuring that members are satisfied with their housing is an important objective, but Defence needs to give more attention to the cost implications of decisions made in the course of doing so. DHA's primary client is Defence (the Commonwealth), not individual ADF members and their families.

---

<sup>87</sup> Inspector General's letter to the ANAO dated 20 May 2003, Enclosure 2.

**4.112** Lack of control mechanisms in Defence result in limited visibility of the approvals and decisions being made by DHA. This is compounded by known data errors in TAPS and a disconnect between the various IT systems, including Defence's ROMAN and ADFPAY systems.

## Recommendation No.4

**4.113** The ANAO *recommends* that Defence develop a means of obtaining overall visibility of housing assistance financial decisions, including those made by DHA on its behalf, to enable timely action on emerging policy and budgetary issues.

### *Defence response*

**4.114** This recommendation is agreed with qualification. Defence has, since mid-2001 (on introduction of arrangements for members without dependants to access improved accommodation) established closer contact between its policy and operational areas. It is also envisaged that handover to the Directorate of Housing and Relocations of management of DHA's administration of the Defence Homeowner Assistance Scheme in 2002 will enable greater visibility of the total cost of housing assistance functions within the Organisation. Development of greater visibility of other housing assistance financial decisions is also planned as a result of this audit.

**4.115** Defence further advised that extension of the CSM-R role to include monitoring of RA and possible role in approving ceiling increases is part of the management framework review project aimed at providing Defence with greater overall visibility of housing assistance financial decisions and impact on the housing budget. The issue of the increase in RA generally is also being addressed through monthly DHA reporting requirements for the DOC.

## 5. Financial Management of Services

---

*This chapter outlines Defence's financial management of housing and relocation services. It examines the overall cost of housing and related assistance, funding calculations, invoice processes and validation of payments.*

**5.1** The 2000 Services Agreement aims to document arrangements between Defence and DHA to satisfy Defence's operational and business requirements for housing, accommodation and related services. The Agreement also allows for application of competitive neutrality to DHA, resulting in commercial pricing of services to Defence.

### Extra charges under the Services Agreement

**5.2** When the Agreement commenced, extra charges were imposed on the Defence rent bill payable to DHA. The charges (in addition to full market 'rent'<sup>88</sup> on all properties) are as follows:

- 10 per cent portfolio management fee, based on full market rent;
- a capital provisioning charge (applied per property where applicable);
- a capital inclusion charge (applied per property where applicable);
- a property holding contribution (applied per property where applicable);
- a quality maintenance fee (applied on all properties); and
- a one-off rent adjustment charge for 2000–01.

These are included in 'Other Charges' in Table 5.1.

**5.3** The Agreement also identifies charges for extra services that Defence is to pay. These charges are:

- 10 per cent management fee for the upgrade of heritage houses;
- 10 per cent management fee for Heritage Conservation Plans; and
- a letting fee (one week's rent of the property being let).

### *DHA's benchmarking of the portfolio management fee*

**5.4** To justify the proposal to charge Defence a 10 per cent portfolio management fee in addition to full market rent, the DHA board, in March 2000, sought to benchmark DHA's portfolio management functions against those of

---

<sup>88</sup> An annuity formula was introduced in the Agreement for those properties where it was decided there was no 'market' available to base the rent on.

'industry'. DHA's corporate finance consultants engaged for this task reported that, given the key factors of the DHA portfolio (value, size and service), it was difficult to benchmark DHA services directly with those provided by market participants. (Defence has on file only the consultants' executive summary and a DHA covering brief to the DHA board.) The DHA covering brief endorsed the proposed management fee structure included in the Agreement, as it was less than the range (identified by the consultants) that could be expected for a similar service by other commercial property providers.

5.5 The ANAO's 1994 report had queried Defence's payment of a 5 per cent management fee to DHA on leased properties. This was on the basis of two consultancy reports in 1992 that had questioned the appropriateness of this fee and suggested that a one-off fee was more in accordance with industry norm. During the development of the 2000 Services Agreement, the management fee was reintroduced. As a result, DHA charges Defence a 10 per cent portfolio management fee on its whole property portfolio, apparently on the basis of industry practice.

### *Defence's external assessment of the pricing structure*

5.6 In May 2000 Defence acknowledged that the pricing structure was the crux of the proposed Agreement and asked a consultant to consider the following questions:

- Is the pricing structure in line with commercial practices and/or industry standards?
- Is the pricing structure 'reasonable' in that it provides value for money to Defence?
- Are the assumptions made in relation to rates of return on capital in various locations reasonable?
- Are the underlying concepts in the pricing structure and the management fees and charges reasonable? For example, is the Portfolio Management Charge reasonable? Can the annuity concept be sustained in regard to 'renting' certain houses?

5.7 The consultant was also asked to verify the estimated costs presented by DHA's costing model.

5.8 The consultant concluded that 'the overall pricing level is in line with industry standards' and 'the pricing structure appears reasonable although there is a need to remove some double charging'.<sup>89</sup> The ANAO notes that the consultant

<sup>89</sup> Consultant's report, *Report to Department of Defence on the pricing structure in the proposed Services Agreement between the Defence Housing Authority (DHA) and the Department of Defence*, 18 May 2000.

was required to focus on 'pricing structure' and did not examine whether the charges were appropriate for the actual services provided or whether another supplier would pass on similar charges. (Defence's reference (see paragraph 2.14) to restricting supply to DHA implies that other sources were available.) The Agreement does not define what specific services are to be provided.

**5.9** The consultant's comment about double charging in the proposed pricing structure referred to the quality maintenance fee. The consultant considered that this charge should not be applied to houses in the 'limited market' (on base or where there is no 'market'), as the full cost of maintenance has already been covered in the annuity calculation, or to houses leased by DHA from private owners (as DHA charges the owner a management fee to cover all costs, including maintenance to the known Defence standard).

**5.10** Defence records indicate that Defence did not pursue the double charging issue. The Agreement was signed without removing the identified double charging. ANAO calculations indicate that, as a result, Defence paid an additional \$1.7 million to DHA in 2001–02 and a similar amount in 2000–01. As mentioned in paragraph 4.14 of this report, the Agreement states that the quality maintenance charge is subject to review and negotiation in future years in the context of a CIP. There has not yet been a review of that kind.

**5.11** At the time of negotiating the Agreement, some Defence staff also considered that the proposed charges were high and that some involved paying twice for a service. For example, 'in the private market, management overheads and maintenance fees are taken from the market rent. DHA appears to treat these as add-ons, thereby effectively charging Defence well above market rent.' These new charges were, however, accepted by Defence because 'so long as we are fully supplemented we need not make an issue of this at the moment.'<sup>90</sup>

**5.12** The Services Agreement formalised the DHA/Defence relationship, having regard to DHA's statutory responsibilities under the DHA Act. The Agreement specifies the responsibilities of the parties in relation to this issue.<sup>91</sup> To help DHA meet Commonwealth policies and operate commercially, the

---

<sup>90</sup> Australian Defence Headquarters, Resources and Financial Programs Division Minute, *DHA Service Agreement*, 1 June 2000.

<sup>91</sup> Clause 2.3.3 states: 'Defence, as lessee and purchaser of services, will define its requirements, including standards, comprehensively, accurately, and in the time frames agreed by the Parties to this Agreement.' Clause 2.3.4 states: 'The DHA, as the lessor and provider of services, will perform its functions in a manner that:

- a) is in accordance with the policies of the Commonwealth, including the satisfaction of shareholder expectations;
- b) meets Defence requirements cost effectively, recognizing the importance of housing in enhancing the morale and productivity of Defence staff;
- c) meets Defence requirements efficiently and in good time, recognizing a joint objective to reduce the overall impact of Defence housing assistance on the Defence budget; and
- d) is in accordance with sound commercial practice and its obligations to operate as a GBE.'

Agreement provides for additional fees to be paid to DHA, which in turn were funded by supplementation from Government. These additional fees were to help DHA pay a 'reasonable' rate of return to shareholders, while meeting Defence's housing requirements (at the specified standard and location).

**5.13** Evidence indicates that Defence's view at the time was that, since DHA's new charges were to be met by supplementary Government funding for Defence to an extent known by DHA, Defence would accept the charges.

## Supplementary funding

**5.14** Through the Budget process, Defence was provided with additional funding to cover the new charges. Defence's Portfolio Budget Statements for 2000–01 commented as follows:

The Government will provide the Department of Defence with additional funding for the increased rental costs associated with the adoption of more commercial practices by the Defence Housing Authority. In line with the 1998 review of the Commonwealth ownership of the Defence Housing Authority, the authority is being restructured on a more commercial basis, including commercial pricing of its services to Defence. Consistent with the adoption of more commercial practices, this measure improves the transparency of the authority's pricing. The supplementation to Defence will be budget neutral as the Defence Housing Authority will return funds to the Commonwealth through increased dividends and taxes.<sup>92</sup>

**5.15** The Portfolio Budget Statements indicate that supplementary annual funding of \$69 million for four years would be paid to Defence, commencing in 2000–01. The funding was provided on the basis of 'no win, no loss'.<sup>93</sup> During audit fieldwork Defence staff consulted were unclear whether this referred to an adjustment annually or at the end of the four years. When the issue was raised, Defence's understanding was as follows:

- The Government decision was to cover the periods from 2000–01 to 2003–04 on an interim basis.
- A permanent adjustment to the Defence department base was to be agreed in 2003–04 based on historic information from 2000–01 to 2002–03.
- Any amounts of over or under funding from the interim decision may be determined and adjusted when the permanent funding is determined.

---

<sup>92</sup> *Portfolio Budget Statements—Defence Portfolio 2000–01*, 2 May 2000, p. 17.

<sup>93</sup> The ANAO understands that 'no win, no loss' means that any surplus funding is to be returned to Government.

**5.16** Prompted by the ANAO, Defence wrote to the Department of Finance and Administration seeking confirmation that:

The no win/no loss aspect of the interim funding agreement would be facilitated by a single adjustment to the Defence bottom line appropriation in the context of the 2003–04 Additional Estimates—reflecting the net effect of the comparison of the three year achievement versus interim funding base.

... As an aside we will be writing to you shortly to agree the basis for measuring achievement (there are actually a few options). ...<sup>94</sup>

**5.17** In reply, Finance said ‘We agree with the stated approach to examine this in the context of the 2003–04 Additional Estimates’.<sup>95</sup>

**5.18** The operational area within Defence, however, was unclear on the practice for reconciling supplementation to ensure a no win, no loss outcome. Over the first two years of the supplementation, Defence had not established how it was to be measured and reported.

**5.19** In April 2003, Defence advised that the process was revised in September 2002 and better meets Defence needs. Defence advice noted that Finance has provided no specific guidance on how supplementary funding should be accounted for despite its provision as a Budget Measure.

**5.20** In May 2003, Finance advised the ANAO that the appropriation and management of the supplementary funding was clearly articulated in the memorandum that sought funding and in the Government’s decision.<sup>96</sup>

**5.21** The Defence Shareholder Advisory Unit advised the ANAO that the supplementation money can be paid only to DHA and not to Defence areas of housing assistance, such as rent allowance, which have increased because of the Agreement. The ANAO considers that, had the operational area in Defence better understood and/or clarified the financial reconciliation advice regarding supplementation prior to the end of the financial year, issues associated with prepayment for the Amenities Upgrade Project (discussed below) may not have arisen.

---

<sup>94</sup> Email from Defence to Department of Finance and Administration re DHA Supplementation, 19 September 2002.

<sup>95</sup> Email to Defence from Department of Finance and Administration re DHA Supplementation, 25 September 2002.

<sup>96</sup> Department of Finance and Administration letter to the ANAO dated 19 May 2003.



### *Amenities Upgrade Project*

**5.22** In December 2001 DHA presented a paper to the DOC proposing that DHA utilise surplus supplementation funds to implement facility improvements of its housing stock to help address significant tenant concerns. The amount of funds viewed as available for this purpose were some \$10 million.

**5.23** On 13 February 2002, the DOC submitted a proposal to the DDG seeking endorsement to use the supplementation funds on an amenities upgrade program. DOC February 2002 minutes state that the proposal was in response to the DDG ‘wanting advice on whether unexpended supplementation could be reasonably spent on housing improvement and how we could best use the funds’. The proposal became the Capital Inclusions Charge (CIC) Amenities Upgrade Project.

**5.24** The DDG accepted the DOC proposal to use the surplus supplementation funds to upgrade security, heating and cooling and outdoor entertaining areas for DHA owned and annuity properties at an estimated cost of \$23.6 million. In order to spend the surplus funds by the end of financial year, information was sought in April 2002 about cut-off dates for invoicing of the Project.

**5.25** There was no formal project or financial approval documentation for the Project. A draft Project Management Plan submitted to the DOC meeting in May 2002 indicated initial expenditure of \$10 million (the amount of money ‘available’), with the remainder of the Project to be paid by 30 June 2004. The minutes note that ‘the evaporative cooling tenders were to be evaluated by the week ending 7 June; ... invoices would be provided to Defence before end 01–02 FY’.

**5.26** A May 2002 DDG briefing paper titled *Supplementation Project—Progress Report* stated, in Next Steps, ‘invoice Defence by 15 June 2002 to ensure this year’s surplus funding is allocated for use’. On 18 June, DHA submitted an invoice to Defence for \$5.916 million (including GST) for heating and cooling systems and outdoor entertaining areas, for payment within seven days. The invoice gave minimal details. It was unclear whether the systems had been purchased, but DHA separately indicated that it was a claim for prepayment. Defence paid the invoice.

**5.27** When the ANAO queried this invoice, Defence provided copies of two DHA letters, dated 13 and 15 June 2002. The letters (almost identical) sought to justify the prepayment of \$5.8 million for heating and cooling systems on the grounds that by 'entering into these arrangements, in particular on a national purchase basis, it realises a total saving of approximately \$1.7 million'. The letters also state that interest realised by this prepayment will be credited to the project and shown in monthly reports. The ANAO notes that these statements do not justify making such a prepayment to DHA, as the savings would arise, not from prepayment, but from the national purchase basis, and applying public money in this way is not good practice.<sup>97</sup>

**5.28** The letters also sought pre-commitment of \$3.7 million for 2001–02 for 'Evaporative Cooling', with a comment that 'an invoice for total costs associated with the Evaporative Cooling phase will be presented in the new financial year when contracting negotiations with the successful service provider has been completed.' The 13 June letter, but not the 15 June letter, went on to state:

The figures above plus the actual set up costs (detailed in a separate memo) [\$0.3 million], represent an amount of payment or commitment just short of the funding for FY 01/02 (\$10m).

**5.29** Defence records did not show this \$5.8 million expenditure as a prepayment.

**5.30** The ANAO queried the arrangements, as the Project appeared more appropriate for the property owner (DHA), than for the principal tenant (Defence), to pay for. A direct flow-on from the upgraded properties is an increased rental charge in the future.

**5.31** Subsequently, the Managing Director, in a report to the DHA board on 2 October 2002, expressed his dissatisfaction with the way the project had been managed and the level of achievement. His report went on to state:

... It is apparent that Defence have not defined their requirements adequately and DHA has not put in place effective and coordinated management strategies.

... The ANAO has queried Defence's approach and management of this project which involved DHA receiving an advance payment of \$5.8 m. It may be desirable to repay Defence unexpended amounts.

**5.32** As a result, Defence wrote to DHA later in October as follows:

As you are aware, the Amenities Upgrade Project is currently under review. The review of the project by Defence and DHA is being conducted as [a] result of the failure of the implementation of the original [draft] Amenities Upgrade Project Plan.

---

<sup>97</sup> A similar issue was raised in Audit Report No.37 1999–2000, *Defence Estate Project Delivery*, paragraph 4.49.

In anticipation of the commencement of the project in July 2002 and on presentation of ... DHA Invoice ... Defence made a prepayment of \$5.852 m. The Authority has subsequently advised Defence that contract negotiations with the preferred tender have ceased. Under the circumstances, Assistance Secretary Personnel Delivery ... has requested that the prepayment be returned to Defence with the interest accumulated on those funds at the agreed interest rate detailed ...

5.33 DHA's next monthly rent bill, sent to Defence in November 2002, was reduced by over \$6 million because of the refund of the funds in question.

## Cost of Defence housing and relocations assistance

### Reported total annual costs

5.34 Defence had no data readily available on the total cost of housing and relocation assistance over recent years, or of individual housing costs in 2001–02, as the responsibilities are now spread across numerous Groups in Defence.<sup>98</sup> In the circumstances, the ANAO initially collated data from Defence's and DHA's annual reports. The data is presented graphically in Figure 5.1. It shows that, over the last 10 years, Defence's reported housing costs have varied significantly but that DHA's reported rental income has remained steady (until the new charges came into effect in 2000).

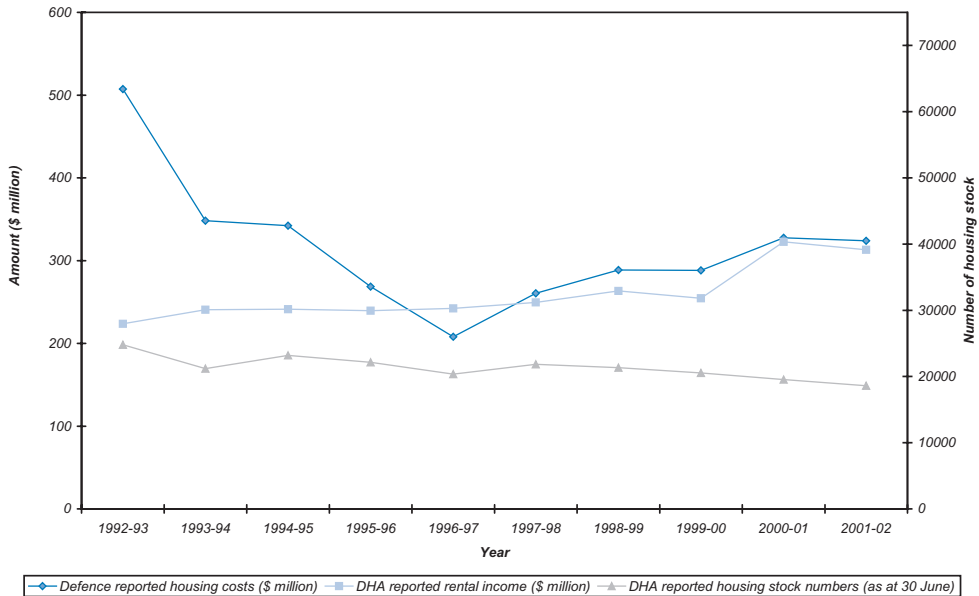
5.35 The mismatch between the Defence and DHA data for the middle years has not been explained. (Detailed data for the period in Defence's former financial information management system (DEFMIS) has been archived and is not readily available.) Also, the Defence Annual Report 2000–01 figure for housing costs (\$327.5 million) includes a total rent payment figure some \$40 million less than the sum of DHA rent invoices paid by Defence for that year. Defence advised that some \$40 million was removed from the expense account code and is recorded separately in the financial statements as finance lease costs (for the housing annuity properties). The figure in the Defence Annual Report 2001–02 was similarly adjusted.

---

<sup>98</sup> The accounts ledger in Defence's ROMAN financial system records payments by Defence according to numerous account codes. No Defence areas consulted, however, were fully aware of all the charges involved in housing and relocation services. Defence operational staff provided the ANAO with internal worksheets but not all costs were included.

**Figure 5.1**

**Defence housing costs, DHA rental income and DHA housing stock numbers**



Source: Defence Annual Reports and DHA Annual Reports.

Note: DHA rental income is only part of Defence housing costs. Defence figures include rent and other charges/fees.

5.36 Figure 5.1 illustrates that, since 1997–98, the number of houses provided to Defence has gradually declined but reported housing costs have increased.

**Individual costs of Defence housing and relocations assistance**

5.37 In the absence of collated data in Defence on the total housing-related costs, the ANAO collated data available and summarised it in Table 5.1. Earlier comparable data were not readily available. The key to the table explains assumptions made. Aggregated data in the table does not match that reported in Defence Annual Reports, for reasons understood to arise from definitional issues concerning ‘housing’ costs.

5.38 Defence commented that Table 5.1 includes costs additional to those viewed as ‘housing costs’. Specific concern was raised about the inclusion of relocation and removal costs, as these are considered to result from ADF requirements for posting members around Australia.

5.39 The ANAO has included these costs on the grounds that they represent part of the full cost to Defence of providing housing and related assistance to members. To minimise misunderstanding, the ANAO has titled these as housing and relocations assistance costs.

**Table 5.1****Defence housing and relocations assistance costs—\$ million**

|   | 1998–99    | 1999–00       | 2000–01       | 2001–02       |
|---|------------|---------------|---------------|---------------|
| <i>Rent to DHA (1)</i>                    | 262.96     | 256.61        | 255.10        | 245.40        |
| <i>Other Charges (2)</i>                  | 0.00       | 0.00          | 62.47         | 62.97         |
| <i>Maintenance</i>                        | 2.76       | 3.59          | 2.05          | 1.97          |
| <i>Water contribution charges</i>         | 3.45       | 3.80          | 3.97          | 3.72          |
| <i>Cleaning of SR (3)</i>                 | N/a        | 4.66          | 6.08          | 6.17          |
| <i>Relocations</i>                        | N/a        | N/a           | N/a           | 9.34          |
| <i>Allocations</i>                        | N/a        | N/a           | 4.51          | 6.27          |
| <b>subtotal amount paid to DHA</b>        | <b>N/a</b> | <b>268.65</b> | <b>334.18</b> | <b>335.85</b> |
| <i>Rent Allowance</i>                     | N/a        | 16.02         | 14.78         | 20.20         |
| <i>Home purchase assistance (4)</i>       | N/a        | 14.64         | 35.76         | 43.98         |
| <i>Temporary Accommodation Assistance</i> | N/a        | 14.42         | 14.97         | 15.77         |
| <i>Removals (5)</i>                       | N/a        | 87.66         | 92.42         | 98.34         |
| <i>Relocation expenses (6)</i>            | N/a        | 57.53         | 54.18         | 51.72         |
| <i>FBT (7)</i>                            | N/a        | 97.31         | 128.64        | 125.79        |
| <i>Member Contributions (8)</i>           | N/a        | -105.05       | -102.32       | -97.87        |
| <b>Total Cost</b>                         | <b>N/a</b> | <b>451.18</b> | <b>572.60</b> | <b>593.78</b> |

**Key to Table 5.1:**

N/a indicates comparable data not available at the time of fieldwork (Defence upgraded its financial management system and the account codes have changed). Zero indicates no applicable charge at the time.

- (1) 2001–02 is the total amount in ROMAN for the 12 month period. It has been included for consistency with previous years.
- (2) Defence supplied figure, as identified on internal spreadsheets. The 2001–02 figure was calculated by the ANAO using the full 12 month data. (See paragraph 5.2.)
- (3) Defence's total for end-of-tenancy cleaning of houses (DHA housing stock) billed by DHA.
- (4) Home purchase assistance includes home loan assistance, home deposit assistance and home purchase and sale expenses allowance (HPSEA) payments.
- (5) Separately identified Defence removal cost.
- (6) Relocation expenses including posting travel, discharge travel, freight removal, childcare reimbursement, various relocation allowances, loss on sale of vehicle, removals miscellaneous costs and house hunting trips.
- (7) Figures extracted from Defence's annual FBT return. FBT year is from 1 April to 31 March.
- (8) Defence figures for both members' and civilians' contributions towards Defence rents paid to DHA.

Note: Table 5.1 refers to the costs of housing and relocations services for ADF members (and some civilians) and their families. It excludes Defence's separately identified costs of living-in accommodation, mainly for single members. It also excludes Defence's in-house costs of administering Defence housing and relocations services and the Agreements with DHA.

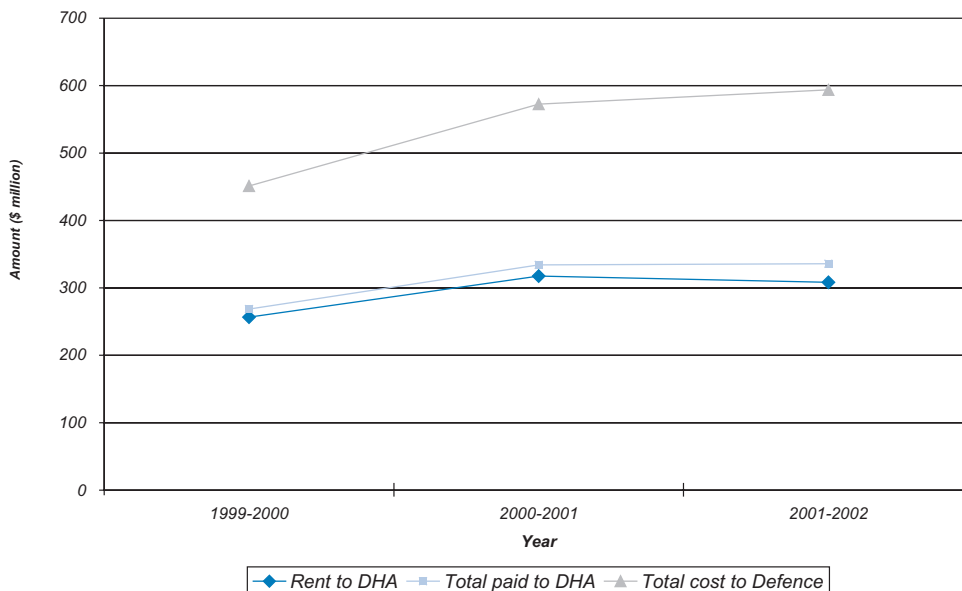
Source: Defence data and ANAO calculations as explained above.

5.40 'Rent to DHA' in Table 5.1 reflects a steady decrease in housing stock numbers. The actual cost per house is discussed below. As discussed earlier, management of 'Relocations' and 'Allocations' has transferred to DHA gradually since 2000–01. Complete data on Defence's previous in-house costs of delivering these functions is not available. In Defence there is no formal reporting of allocation and relocation management fees, as they are absorbed into the suppliers' expense code called 'general goods and services' and therefore not reflected as part of the cost of housing assistance.

5.41 The ANAO considers that Defence management of housing assistance would benefit by maintaining a comprehensive table of costs, like Table 5.1, in future years.

**Figure 5.2**

**Defence housing and relocation assistance costs—\$million**



Source: As per Table 5.1. Complete and comparable data for 1998–99 not readily available.

5.42 Figure 5.2 (based on Table 5.1) illustrates Defence costs before and after the Services Agreement came into effect (July 2000). The ‘Rent to DHA’ line refers to the amount paid to DHA for the provision of housing stock. The fall in this line is, however, offset by the increase in the ‘Total cost to Defence’ line and the increase in the ‘Total paid to DHA’.

5.43 Figure 5.2 also illustrates that, despite a decrease in the number of DHA houses required by Defence, more members are being provided with RA (separately administered by DHA) to enable them to lease houses on the private rental market. The reduction in the number of DHA houses is also associated with DHA’s increasing reliance on houses rented on regional rental markets, in certain areas, to absorb fluctuations in the Defence housing requirement (as allowed in the Services Agreement). The result, however, is that the total cost of housing assistance for members with dependants is not readily visible. There has also been an increased take-up rate of home purchase assistance.

5.44 In October 2001, a year after the Agreement was signed, DHA informed Defence that it had taken more than 1000 houses off the rent bill in the past 12 months and that this would produce annual savings of \$15 million. The ANAO

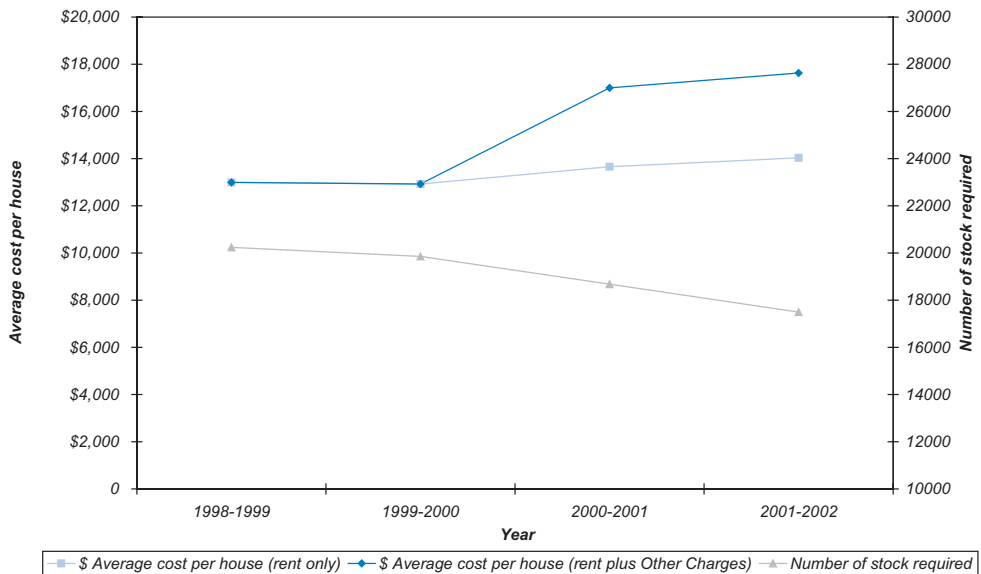
notes, however, that the reduction in stock was effectively in response to Defence reducing its housing requirement.

*Increase in cost per house*

5.45 Figure 5.3 compares housing numbers with the average rental cost to Defence. On the basis of rent alone, the average unit cost of each house is gradually increasing. When the Other Charges (from Table 5.1) are included in the calculations, the increase in average costs per house is considerable. (The Other Charges result from the introduction of the Services Agreement and Government policy to make DHA more commercial.)

5.46 Defence advised the ANAO that the rental rise included in these increases is less than Consumer Price Index (CPI) increases for the periods involved. Rent charges increased by 1.86 per cent in 2002. At the time the CPI increase was 3.3 per cent. DHA further advised that the average rental cost per house charged to Defence has increased at below rent market increases during the last three years under the Services Agreement.

**Figure 5.3**  
**Housing numbers v's average cost per house**



Source: ANAO calculations using Defence data.

## *Home purchase assistance*

5.47 The cost to Defence of its home purchase assistance is also rising. In 1999–2000, Defence’s home purchase or sale expenses allowance was revised. The revised scheme is called the Home Purchase Assistance Scheme and is in the form of Defence-financed upfront lump-sum cash payments. There has been a high take-up rate of the revised scheme but this has not been reflected in a corresponding reduction in rent payments to DHA or Defence’s required housing stock numbers (the DHF). Separately, DHA administers, on behalf of Defence, a home loan scheme that provides concessions on housing loans from certain banks.

5.48 Table 5.1 shows that home purchase assistance payments to members increased to almost \$44 million in 2001–02. Because of the rise in these payments, the total cost of Defence housing assistance has continued to increase. No estimates of the future cost of the scheme were available. Due to Defence’s current methodology for determining its housing requirement, the impact of home purchase assistance cannot be included in the DHF. The audit did not examine Defence’s home purchase assistance.

5.49 In April 2003, Defence advised as follows:

It is noted that the increase reported by the ANAO in regard to housing purchase assistance provided is an anticipated one-off experience. This has resulted from the large numbers of members returning from duty in Timor with access to additional money received while on duty combined with unusually low interest rates generally available over the past two years in the Australian economy. Given current international events this may, in fact, continue over the next 12–24 months. Both factors have resulted in a considerable increase in the numbers of ADF members accessing this entitlement and are considered by Defence to be a positive outcome of the policy’s intentions.

## **Cost reduction**

5.50 As mentioned earlier, Defence announced that an overarching purpose of the Services Agreement was to reduce the overall cost of providing housing to Defence. At the time of signing the Agreement, Defence understood that both parties had a firm commitment to progressive cost reduction, to be realised through development and implementation of continuous improvement and cost-reduction plans. These plans have not been prepared.

5.51 The only reduction evident is in the number of houses provided by DHA, and therefore a subsequent reduction in the rent bill. Defence advised that there has been significant work to reduce costs, primarily focusing on removal of surplus housing from rent stock. The ANAO notes that savings achieved have been offset by the increases in RA and home purchase assistance and a reduction in member contributions.



**5.52** The overall cost of providing housing has increased partly by reallocating costs into other areas of the Defence budget (through RA and home purchase assistance payments). Issues involving additional charges to be reviewed in the first 12 months of the Agreement, as discussed in paragraph 4.6, are still outstanding and the additional charges have risen.

**5.53** Defence does not actively manage overall housing and relocation services as a program, or assess the full costs, which are rising. The ANAO notes that Defence's management of housing services is largely reactive—paying rent and related bills as they are received—without actively managing the services as a program to ensure requirements are met and that value is obtained. The earlier ANAO audit reported that the total cost of housing and relocation assistance measures was about \$370 million in 1993–94.<sup>99</sup> That costing, compared with the total for 2001–02 in Table 5.1, indicates that Defence housing assistance costs have increased by 65 per cent in the last eight years.<sup>100</sup>

## Rent bill/baseline/valuations/calculations

**5.54** In a report produced for both DHA and Defence, DHA's internal audit consultants reviewed the first full rental period (week) after the commencement of the Services Agreement. The audit was to ensure that processes reflect arrangements in the Services Agreement and that amounts charged to Defence were in accordance with the Agreement. The audit focused on period 27 of the rent bill, even though the July rent bill went from periods 25 to 29.<sup>101</sup>

**5.55** The audit concluded that the period 27 rent bill was prepared in accordance with all relevant requirements of the Services Agreement and that it was correctly calculated. It also concluded that the process for compiling the period 27 rent bill was generally adequate and supported by working papers of a sufficient standard. Goods and Services Tax included in the period 27 rent bill was correctly calculated.

### *Application of the annuity formula*

**5.56** The internal audit reported, for each Annuity Rent section, calculations were re-performed and formula components were verified back to the supporting documentation without exception. However, the ANAO's calculations, comparing property register and rent bill data, disclosed a small error in two regions, resulting in an annual overcharge of \$65 973.

---

<sup>99</sup> Audit Report No.13 1994–95 *Australian Defence Force Housing Assistance*, p. 3.

<sup>100</sup> This calculation disregards management fees associated with DHA's allocation and relocation services so that data could be comparable.

<sup>101</sup> Deloitte Touche Tohmatsu, *Defence Housing Authority Rent Bill Review* (December 2000).

**5.57** The ANAO's calculation of the initial annuity charges on the property register also disclosed that application of the annuity formula in clause 10.1.6 of the Agreement was contrary to clause 4.4.1. Clause 10.1.6 provides that, 'for practical purposes, the above formula [for the annuity payments] yields the same result as the "periodic payment for annuity formula (PMT)" in EXCEL.' Conversion of the formula to the PMT EXCEL function assumes that the 'type' of payment is to be made at the end of the period, rather than at the beginning. Clause 4.4.1, however, specifies that Defence will pay rent and rent-related charges to DHA monthly in advance.

**5.58** This 'error' results in an increased effective rent for each annuity property (as more interest is being paid than required). Using property register data at 1 July 2000, ANAO's recalculation of the annuities with the assumption that payments are made 'in advance' (at the beginning of the period) disclosed a difference of \$2.86 million, which would incur an additional 10 per cent portfolio management fee.<sup>102</sup> This inconsistency was previously brought to Defence's attention in 2001, when the annuity arrangements were assessed as finance leases for inclusion in Defence's annual financial statements.

**5.59** At the time of the current audit, the application of the PMT formula had not been clarified by the two parties. If the parties agree that there is an error in the annuity formula being used, Defence should be reimbursed for the extra charges that have been paid.<sup>103</sup> A contract variation may also need to be raised to adjust the formula in the Services Agreement for internal consistency. There is also a flow-on effect to the value of finance leases in Defence's annual financial statements. The ANAO understands that the issue is under review.

### *Initial rent bill*

**5.60** The ANAO attempted to recalculate the initial rent bill for period 27. Difficulty was experienced in that periods 25 to 29 were included on the one rent bill (July 2000). This meant that only data for 18 of the 35 days related to the Services Agreement. There is little evidence of the way Defence validated the charges prior to payment.

**5.61** The ANAO used data in the 1 July 2000 property register to assess the expected rent, annuity charges and additional fees as set out in the Agreement.

---

<sup>102</sup> The ANAO notes that Defence pays the invoices neither clearly in advance, nor in arrears. Also the periods referred to in the formula are annual, whereas payment is made monthly. These factors compound the issue and makes resolution difficult.

<sup>103</sup> A consultant's report subsequently commissioned by DHA indicates that, if a monthly annuity-based approach was used with the 2003–04 average property numbers and annuity rent, the total annuity payments made by Defence would be approximately \$700 000 per annum less than the amounts that have been billed to Defence under the Services Agreement. (Consultant's report *DHA Special Rent Review Report #1 of 2002/03*, May 2003.)

Notwithstanding minor adjustments due to the reduction in housing numbers in the subsequent two weeks, there were inconsistencies between the July 2000 property register and the July 2000 rent bill figures in all categories. There was, however, a significant variation between the property register and the annuity charge. Taking into consideration the reduction in stock during the period, the stated annuity charge was \$1.88 million higher than an amount supported by the property register.

5.62 Defence investigated the matter in May 2003 and found that there had been an error in attribution of the costs over the part month for rent and annuities.<sup>104</sup> The summary sheet to the rent bill did not reflect the true distribution of the costs. The rent for Limited Market Annuities and Heritage Houses was either not reflected or was incorrectly recorded and the annuity costs were overstated; however, the overall calculation was correct.<sup>105</sup>

5.63 Separately, DHA commissioned a consultant's review and informed the ANAO that it confirmed the accuracy of its billing for this period. The ANAO notes, rather, that the consultant's report 'indicated that DHA had not charged both market rent and annuity rent for the annuity properties simultaneously during the period covered by the July 2000 rent bill.'<sup>106</sup> The consultant's testing of the rent bill disclosed a discrepancy in the allocation of costs between columns on the rent bill summary, as did Defence's investigation. The annuity charges were overstated as they included the market rent for the earlier period in the rent bill.

5.64 For such an attribution error in the rent bill invoice to go undetected highlights the difficulty of checking a monthly rent bill that groups weekly rents, annuities and additional charges, even though property numbers change weekly.

5.65 The internal audit report indicated that Defence had expressed interest in having rent totals presented each weekly period as well as totals for the month. The report indicated that DHA had responded that the 'currently provided system generated reports for weekly rental periods' and that 'providing the actual rent bill, which was manually prepared, on a weekly basis would be labour intensive.' DHA also stated that it 'will undertake to provide this report with the introduction of the new HOME system.' Defence does not receive (and has not sought) this information nor the weekly breakdown in order to validate the numbers included in the rent bill.

---

<sup>104</sup> Inspector General's letter to the ANAO dated 20 May 2003, Enclosure 1.

<sup>105</sup> *Further explanation to response to Section 19 ANAO Report*, provided by Defence on 20 May 2003. The response was supported by an EXCEL spreadsheet developed with DHA.

<sup>106</sup> Consultant's report *DHA Special Rent Review Report #1 of 2002/03*, May 2003 p. 2.

## Invoice validation

**5.66** Evidence indicates that Defence relied on the DHA internal audit report referred to above when seeking to ensure that the rent bill baseline under the Services Agreement was correct. Defence receives only weekly 'ons and offs' property data with the rent bill, not the complete property register. DRH staff have access to DHA's TAPS<sup>107</sup> but the system is not always operational.

**5.67** In August 2001, DHA provided Defence with an updated property register. There is no evidence that Defence validated the data against houses in the regions, or that the 2001 property register was compared to any of the rent bills provided around that time, to ensure that the rent bill was correct. The ANAO's reconciliation of the property register with the August 2001 rent bill again highlighted variations between them. DRH staff advised the ANAO that they had not obtained an updated property register since August 2001.

**5.68** When the Services Agreement began, Defence regional staff (the CSM-Rs) helped DRH verify the housing rent bill. As mentioned in Chapter 2, the CSM-Rs were originally responsible for verifying stock transactions, including additions, deletions, rent changes and movements, because of their detailed knowledge of the housing stock. Checking was done by reviewing TAPS reports and/or physical checking, but this has since stopped.

**5.69** As the CSM-Rs are no longer required to validate the housing stock, Defence relies on DHA's data input into TAPS and its invoices. Defence's knowledge of the property stock diminished as DHA took over responsibility for allocations. DHA's annual Provisioning Schedule is developed and negotiated at the national level, with no Defence management of the actual implementation of the schedule. Correspondence between Defence and DHA indicates that there are data errors in TAPS.

**5.70** Each CSM-R is responsible for validating the 'maintenance certificates' that detail repairs and maintenance charges for work completed by DHA on behalf of Defence. The charges are separated into tenant charges (for non-fair wear and tear), maintenance of vacant properties (e.g. lawn mowing, light cleaning and mail box clearing) or work requested by Defence. Discrepancies are often addressed at the regional level. Copies of signed certificates are then forwarded to DRH in Canberra for payment.

**5.71** The ANAO saw many instances where charges were incorrectly noted on the maintenance certificates passed to Defence to certify. In examples viewed by the ANAO, the CSM-R advised DHA of the error and authorised the correct amounts to be paid to DHA. This indicates the value that Defence regional staff,

---

<sup>107</sup> Tenant and Accommodation Property Management System.

familiar with local housing issues and stock, can add to the process of certifying payments.

5.72 A revised process to validate invoices for relocation allowances paid to members on Defence's behalf is yet to be settled. As part of the Relocations Services Agreement, Defence now reimburses DHA weekly and receives a monthly invoice. Defence advised that processes for managing this are being developed and will include 'spot' audits of invoices received, with a potential for using regional CSM-Rs for the task.

## Recommendation No.5

5.73 The ANAO *recommends* that, to improve processes for payment of DHA's monthly invoices, Defence:

- a) adjust, in consultation with DHA, the rent bill format to facilitate checking of particulars in the bill; and
- b) develop a system to validate invoices appropriately, including the addition or removal of properties from the rent bill, to ensure timely action in accordance with the agreed housing forecast and corresponding Provisioning Schedule.

### *Defence response*

5.74 This recommendation is agreed. Defence intends to refine the invoicing format for the future as per the recommendation. In addition, Defence is also currently revising the role of its regional staff to include assistance in validation of the monthly rent bill.

---

Canberra ACT  
19 June 2003



P. J. Barrett  
Auditor-General



# Appendices





## Appendix 1

### ANAO's 1994 Report on Defence Housing Assistance

The ANAO's Audit Report No.13 1994–95 *Australian Defence Force Housing Assistance* was tabled in December 1994. Key points were as follows.

The standard of Defence housing has improved dramatically since the Defence Housing Authority (DHA) commenced operations in 1988 with rent payments reaching \$235 million in 1993–94. The cost (including Fringe Benefits Tax) of providing housing assistance to ADF members was \$243 million in 1993–94.

In view of increasing costs and questions about the future viability of present arrangements, there is a need for Defence to seek Government approval of the nature and level of ADF housing assistance as soon as recent reviews, including the study of a cash subsidy option, are finalised.

A contract or legal Deed of Agreement is needed to formalise the relationship between Defence and the DHA, given it is six years since the DHA was established. Such a document may have avoided some areas of ongoing dispute with significant cost implications for Defence; e.g. continuing rents paid by Defence on dwellings no longer required and a \$3.7 million management fee associated with leased houses.

Members should be allowed a greater degree of choice in the type, cost and location of housing they occupy, consistent with satisfying Defence operational requirements.

The ANAO estimates that the cost to Defence of vacant houses and of the allocation of housing exceeding members' rank entitlement was \$35.5 million in 1993–94. Urgent action to reduce these costs is essential. A computer system developed in 1993 should improve the management and control of housing allocations. Attention also needs to be given to the cost of DHA leased houses, which, when compared with DHA owned housing, was an extra \$13 million in 1993–94.

Anomalies in the current housing standards, in particular the failure to identify extra bedrooms and ensuites as additional amenities, are resulting in an under-recovery of costs from members.

In 1993–94 Defence paid \$1.3 million in rent for 52 representational houses at an average weekly rent of \$466. The ANAO questioned the need to retain all of these expensive properties.

In 1994 delays in the identification of vacated properties resulted in Defence incurring unnecessary rental charges of about \$700 000.

Defence is instituting a training program for its Service Housing Authority housing officers to provide improved guidance to enable them to participate more effectively in the management of housing and the planning process.

## Appendix 2

### Previous Performance Audits in Defence

*Set out below are the titles of the ANAO's previous performance audit reports on Defence tabled in the Parliament in the last five financial years.*

*Audit Report No.5 1997–98 Performance Management of Defence inventory*

*Audit Report No.34 1997–98 New Submarine Project*

*Audit Report No.43 1997–98 Life-cycle costing in Defence*

*Audit Report No.2 1998–99 Commercial Support Program*

*Audit Report No.17 1998–99 Acquisition of Aerospace Simulators*

*Audit Report No.41 1998–99 General Service Vehicle Fleet*

*Audit Report No.44 1998–99 Naval Aviation Force*

*Audit Report No.46 1998–99 Redress of Grievances in the Australian Defence Force*

*Audit Report No.13 1999–2000 Management of Major Equipment Acquisition Projects*

*Audit Report No.26 1999–2000 Army Individual Readiness Notice*

*Audit Report No.35 1999–2000 Retention of Military Personnel*

*Audit Report No.37 1999–2000 Defence Estate Project Delivery*

*Audit Report No.40 1999–2000 Tactical Fighter Operations*

*Audit Report No.41 1999–2000 Commonwealth Emergency Management Arrangements*

*Audit Report No.45 1999–2000 Commonwealth Foreign Exchange Risk Management Practices*

*Audit Report No.50 1999–2000 Management Audit Branch—follow-up*

*Audit Report No.3 2000–2001 Environmental Management of Commonwealth Land—follow-up*

*Audit Report No.8 2000–2001 Amphibious Transport Ship Project*

*Audit Report No.11 2000–2001 Knowledge System Equipment Acquisition Projects in Defence*

*Audit Report No.22 2000–2001 Fraud Control in Defence*

*Audit Report No.26 2000–2001 Defence Estate Facilities Operations*

*Audit Report No.32 2000–2001 Defence Cooperation Program*

*Audit Report No.33 2000–2001 Australian Defence Force Reserves*

*Audit Report No.41 2000–2001 Causes and Consequences of Personnel Postings in the ADF*

*Audit Report No.51 2000–2001 Australian Defence Force Health Services—follow-up*

*Audit Report No.16 2001–2002 Defence Reform Program—Management and Outcomes*

*Audit Report No.24 2001–2002 Status Reporting of Major Defence Equipment Projects*

*Audit Report No.30 2001–2002 Test and Evaluation of Major Defence Equipment Acquisitions*

*Audit Report No.38 2001–2002 Management of ADF Deployments to East Timor*

*Audit Report No.44 2001–2002 Australian Defence Force Fuel Management*

*Audit Report No.58 2001–2002 Defence Property Management*

*Audit Report No.3 2002–2003 Facilities Management at HMAS Cerberus*

*Audit Report No.30 2002–2003 Defence Ordnance Safety and Suitability for Service*

*Audit Report No.31 2002–2003 Retention of Military Personnel—follow-up*

*Audit Report No.39 2002–2003 Navy Operational Readiness*

*Audit Report No.46 2002–2003 Australian Industry Involvement Program.*

# Index

---

## C

- Chief Executive's Instruction (CEI) 37, 39-40,
- Client Service Manager–Relocations (CSM-R) 52-54, 56, 58, 67, 69, 82-83, 100- 101,
- Commonwealth Authorities and Companies Act 1997* (CAC Act) 24, 48,
- Corporate Services and Infrastructure Group (CSIG) 21, 25, 51, 53, 55

## D

- dead rent 14, 62-63, 79, 80-81
- Defence Domiciliary Group (DDG) 45-46, 50-51, 60, 63-65, 67, 89
- Defence Efficiency Review (DER) 13, 28, 40-41, 43, 45, 66, 82
- Defence Families of Australia (DFA) 56-57
- Defence Housing Authority Act 1987* (DHA Act) 25, 32-34, 36, 48-50, 59, 86
- DHA board 25, 28, 30, 32, 36, 38, 44, 45, 48, 49, 50, 56, 59, 84-85, 90
- Directorate of Housing and Removal Policy (DHRP) 54-55, 82
- Domiciliary Operations Committee (DOC) 50, 51, 63, 65, 67, 70-73, 78, 80, 82-83, 89
- Directorate of Relocations and Housing (DRH) 46, 53-56, 67, 68, 70-71, 76, 82, 100

## F

- Financial Management and Accountability Act 1997* (FMA Act) 39
- Fringe Benefits Tax (FBT) 11, 23, 55, 93, 105

## G

- Glenn Report 28
- Government Business Enterprise (GBE) 11, 15, 24, 27, 30, 33, 36-37, 48-49, 86
- gazette 40, 47

## H

- Housing Management Instruction (HMI) 60-61, 63, 65, 70, 77
- home purchase assistance 11, 15, 22-23, 93-94, 96-97

## K

- Key Performance Indicator (KPI) 12, 38-39, 47, 51-52, 60-61, 64, 65, 78-79

## N

- Nunn Review 28

## P

- Pay and Conditions Manual* (PACMAN) 22, 23, 66, 77

## **R**

rent bill 13, 14, 18, 53, 55, 60, 62, 64, 67, 71-73, 79, 80-81, 84, 91, 94, 96-101

Relocations Services Agreement 12, 27-28, 30, 43, 47, 49, 51, 60, 66-67, 77, 78, 102

Rent Allowance (RA) 11, 13-14, 22-23, 27, 41, 54, 65, 72-73, 77, 81-83, 88, 93-94, 96-97

## **S**

Service Residence (SR) 22, 66, 77-78, 82, 93

shareholder Ministers 12, 13, 15, 24, 30, 32-34, 36-39, 44, 45, 48, 49, 55, 56, 62, 77

## **T**

Tenant Accommodation and Property Management System (TAPS) 80, 83, 100

## **W**

whole-of-government 27, 33

## Series Titles

---

Audit Report No.1 Performance Audit  
*Information Technology at the Department of Health and Ageing*  
Department of Health and Ageing

Audit Report No.2 Performance Audit  
*Grants Management*  
Aboriginal and Torres Strait Islander Commission

Audit Report No.3 Performance Audit  
*Facilities Management at HMAS Cerberus*  
Department of Defence

Audit Report No.4 Audit Activity Report  
*Audit Activity Report: January to June 2002*  
Summary of Outcomes

Audit Report No.5 Performance Audit  
*The Strategic Partnership Agreement between the Department of Health and Ageing and the Health Insurance Commission*  
Department of Health and Ageing and the Health Insurance Commission

Audit Report No.6 Performance Audit  
*Fraud Control Arrangements in the Department of Veterans' Affairs*

Audit Report No.7 Performance Audit  
*Client Service in the Child Support Agency Follow-up Audit*  
Department of Family and Community Services

Audit Report No.8 Business Support Process Audit  
*The Senate Order for Department and Agency Contracts (September 2002)*

Audit Report No.9 Performance Audit  
*Centrelink's Balanced Scorecard*

Audit Report No.10 Performance Audit  
*Management of International Financial Commitments*  
Department of the Treasury

Audit Report No.11 Performance Audit  
*Medicare Customer Service Delivery*  
Health Insurance Commission

Audit Report No.12 Performance Audit  
*Management of the Innovation Investment Fund Program*  
Department of Industry, Tourism and Resources  
Industry Research and Development Board

Audit Report No.13 Information Support Services  
*Benchmarking the Internal Audit Function Follow-on Report*

Audit Report No.14 Performance Audit  
*Health Group IT Outsourcing Tender Process*  
Department of Finance and Administration

Audit Report No.15 Performance Audit  
*The Aboriginal and Torres Strait Islander Health Program Follow-up Audit*  
Department of Health and Ageing

Audit Report No.16 Business Support Process Audit  
*The Administration of Grants (Post-Approval) in Small to Medium Organisations*

Audit Report No.17 Performance Audit  
*Age Pension Entitlements*  
Department of Family and Community Services  
Centrelink

Audit Report No.18 Business Support Process Audit  
*Management of Trust Monies*

Audit Report No.19 Performance Audit  
*The Australian Taxation Office's Management of its Relationship with Tax Practitioners*  
Australian Taxation Office

Audit Report No.20 Performance Audit  
*Employee Entitlements Support Schemes*  
Department of Employment and Workplace Relations

Audit Report No.21 Performance Audit  
*Performance Information in the Australian Health Care Agreements*  
Department of Health and Ageing

Audit Report No.22 Business Support Process Audit  
*Payment of Accounts and Goods and Services Tax Administration  
in Small Commonwealth Agencies*

Audit Report No.23 Protective Security Audit  
*Physical Security Arrangements in Commonwealth Agencies*

Audit Report No.24 Performance Audit  
*Energy Efficiency in Commonwealth Operations—Follow-up Audit*

Audit Report No.25 Financial Statement Audit  
*Audits of the Financial Statements of Commonwealth Entities  
for the Period Ended 30 June 2002*  
Summary of Results

Audit Report No.26 Performance Audit  
*Aviation Security in Australia*  
Department of Transport and Regional Services

Audit Report No.27 Performance Audit  
*Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*

Audit Report No.28 Performance Audit  
*Northern Territory Land Councils and the Aboriginals Benefit Account*

Audit Report No.29 Audit Activity Report  
*Audit Activity Report: July to December 2002*  
Summary of Outcomes

Audit Report No.30 Performance Audit  
*Defence Ordnance Safety and Suitability for Service*  
Department of Defence

Audit Report No.31 Performance Audit  
*Retention of Military Personnel Follow-up Audit*  
Department of Defence

Audit Report No.32 Business Support Process Audit  
*The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)*

Audit Report No.33 Performance Audit  
*Management of e-Business in the Department of Education, Science and Training*

Audit Report No.34 Performance Audit  
*Pest and Disease Emergency Management Follow-up Audit*  
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.35 Performance Audit  
*Fraud Control Arrangements in the Australian Customs Service*

Audit Report No.36 Performance Audit  
*Monitoring of Industry Development Commitments under the IT Outsourcing Initiative*  
Department of Communications, Information Technology and the Arts

Audit Report No.37 Performance Audit  
*Passport Services*  
Department of Foreign Affairs and Trade

Audit Report No.38 Performance Audit  
*Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999*

Audit Report No.39 Performance Audit  
*Navy Operational Readiness*  
Department of Defence

Audit Report No.40 Performance Audit  
*R & D Tax Concession*  
Department of Industry, Tourism and Resources, the Industry Research and Development Board and the Australian Taxation Office

Audit Report No.41 Performance Audit  
*Annual Reporting on Ecologically Sustainable Development*

Audit Report No.42 Performance Audit  
*Managing Residential Aged Care Accreditation*  
The Aged Care Standards and Accreditation Agency Ltd

Audit Report No.43 Performance Audit  
*The Sale of Sydney (Kingsford Smith) Airport*

Audit Report No.44 Performance Audit  
*Review of the Parenting Payment Single Program*  
Department of Family and Community Services  
Centrelink

Audit Report No.45 Business Support Process Audit  
*Reporting of Financial Statements and Audit Reports in Annual Reports*

Audit Report No.46 Performance Audit  
*Australian Industry Involvement Program*  
Department of Defence

Audit Report No.47 Performance Audit  
*Implementation and Management of the Indigenous Employment Policy*  
Department of Employment and Workplace Relations

Audit Report No.48 Performance Audit  
*Indigenous Land Corporation—Operations and Performance Follow-up Audit*  
Department of Immigration and Multicultural and Indigenous Affairs

Audit Report No.49 Performance Audit  
*Management of the Navigation Aids Network*  
Australian Maritime Safety Authority

Audit Report No.50 Information Support Services  
*Managing People for Business Outcomes, Year Two*  
Benchmarking Study



## Better Practice Guides

---

|  |          |
|--|----------|
| Goods and Services Tax (GST) Administration  | May 2003 |
| AMODEL Illustrative Financial Statements 2003  | May 2003 |
| Managing Parliamentary Workflow  | Apr 2003 |
| Building Capability—A framework for managing learning and development in the APS               | Apr 2003 |
| Internal Budgeting   | Feb 2003 |
| Administration of Grants   | May 2002 |
| Performance Information in Portfolio Budget Statements   | May 2002 |
| Life-Cycle Costing   | Dec 2001 |
| Some Better Practice Principles for Developing Policy Advice                                   | Nov 2001 |
| Rehabilitation: Managing Return to Work  | Jun 2001 |
| Internet Delivery Decisions  | Apr 2001 |
| Planning for the Workforce of the Future   | Mar 2001 |
| Contract Management  | Feb 2001 |
| Business Continuity Management   | Jan 2000 |
| Building a Better Financial Management Framework   | Nov 1999 |
| Building Better Financial Management Support   | Nov 1999 |
| Managing APS Staff Reductions<br>(in Audit Report No.49 1998–99)                               | Jun 1999 |
| Commonwealth Agency Energy Management  | Jun 1999 |
| Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices | Jun 1999 |
| Managing Parliamentary Workflow  | Jun 1999 |
| Cash Management  | Mar 1999 |
| Management of Occupational Stress in Commonwealth Agencies                                     | Dec 1998 |
| Security and Control for SAP R/3   | Oct 1998 |
| Selecting Suppliers: Managing the Risk   | Oct 1998 |
| New Directions in Internal Audit   | Jul 1998 |
| Controlling Performance and Outcomes   | Dec 1997 |
| Management of Accounts Receivable  | Dec 1997 |
| Protective Security Principles<br>(in Audit Report No.21 1997–98)                              | Dec 1997 |

|   |          |
|---|----------|
| Public Sector Travel  | Dec 1997 |
| Audit Committees  | Jul 1997 |
| Core Public Sector Corporate Governance<br>(includes Applying Principles and Practice of Corporate<br>Governance in Budget Funded Agencies) | Jun 1997 |
| Management of Corporate Sponsorship   | Apr 1997 |
| Telephone Call Centres  | Dec 1996 |
| Telephone Call Centres Handbook   | Dec 1996 |
| Paying Accounts   | Nov 1996 |
| Asset Management  | Jun 1996 |
| Asset Management Handbook   | Jun 1996 |
| Managing APS Staff Reductions   | Jun 1996 |