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# **Defence Housing Authority Amendment Bill 2006**

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## **Contents**

Purpose.
Background.
Defence Housing Authority
The Uhrig Report and corporate governance of statutory authorities
Recommendations
Better-practice guidance for boards
Proposed changes to the operation of DHA
Changes to the Board
DHA Advisory Committee
Changes to the functions of DHA6
Proposed changes to the financial framework
Reliance on the CAC Act

Removal of taxation exemption
Financial implications
Main provisions
Changes to the functions of DHA
Additional functions
Ministerial powers
DHA Board
DHA Advisory Committee
Changes to taxation arrangements
Concluding comments
Endnotes

## **Defence Housing Authority Amendment Bill 2006**

**Date introduced:** 30 March 2006 **House:** House of Representatives

Portfolio: Defence

**Commencement:** The Bill's formal provisions commence on Royal Assent. The substantive provisions commence on proclamation or, at the latest, six months

after the Act receives Royal Assent.

## **Purpose**

To amend the *Defence Housing Act 1987* in order to provide an administrative and financial framework in which the Defence Housing Authority can operate more commercially as a government business enterprise.

## **Background**

### **Defence Housing Authority**

The Defence Housing Authority (DHA) was established in 1988 to provide housing for members of the Australian Defence Force (ADF) and their families, in accordance with the operational requirements of the Department of Defence. It is a statutory corporation in the Defence portfolio. The *Defence Housing Authority Act 1987* (the Act) requires DHA to perform its functions in a manner that accords with Commonwealth policies and sound commercial practice.<sup>1</sup>

DHA reports to two ministers, the Minister for Defence, through the Parliamentary Secretary for Defence, and the Minister for Finance and Administration, who has delegated the responsibility to the Special Minister of State.<sup>2</sup> In 1992 DHA became a government business enterprise (GBE) subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act). It currently has a Standard and Poor's credit rating of AA+.<sup>3</sup> 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>4</sup> DHA surveys of ADF tenants indicate a high degree of customer satisfaction with their housing and relocation services.<sup>5</sup>

Since 1 July 2000, DHA has provided houses under a formal services agreement with Defence. Currently DHA provides around 17,000 properties to Defence, valued at over \$6 billion. Of these, approximately 2,000 are located on Defence bases and the remainder in the community. The Sale and Leaseback Program is an integral part of DHA's business.

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Properties are bought or constructed by DHA and in turn sold to investors with whom a leaseback arrangement has been agreed for a period of three, six, nine or twelve years. Around 60 percent of properties are owned by private investors and leased back to DHA. In the next three years, DHA will spend approximately \$1.5 billion on building and acquiring new houses. 9

During 2000 and 2001, DHA began providing Defence with housing-related services, which were formalised in a second service agreement in 2002. These are mainly: housing allocation and relocation services; arranging for Defence to make payment of Rent Assistance 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. <sup>10</sup>

Under the Act, the DHA board has 12 members. Four of these are members of the ADF, one is a civilian official in Defence and another is a Defence spouse representative. Another four board members are drawn from the private sector for their commercial expertise. One of the purposes of this Bill is to reduce the size of the DHA board to nine, and to establish an advisory committee. Three of the four board members drawn from the ADF, plus the representative of Defence spouses, will no longer be members of the board but will instead comprise the DHA advisory committee. This committee will then become the principal means by which Defence and Defence families will make representations to DHA.

DHA employs about 750 staff in over thirty offices around Australia. The staff are based at Housing Management Offices and outposted offices located near major military facilities, as well as in the national office and support centre in Canberra.

## The Uhrig Report and corporate governance of statutory authorities

The Government flagged its intention to examine statutory authorities and office holders in its 2001 election platform. On 14 November 2002, the Prime Minister, Hon. John Howard, appointed Mr John Uhrig AC, a well-known and respected businessman, to review the governance practices of statutory authorities and office holders, particularly those agencies that impact on the business community. The objective of the review was to identify issues concerning existing governance arrangements, and to provide policy options for Government to gain the best from statutory authorities and office holders and their accountability frameworks.

As part of the review process, Uhrig found there was no universally agreed definition of 'corporate governance'. His report provides the following definition: in general terms, corporate governance encompasses the arrangements by which the powers of those who implement the strategy and the direction of an organisation are delegated and limited to ensure the organisation's success, taking into account the environment in which the organisation is operating. <sup>16</sup>

The Prime Minister was provided with the Review of the Corporate Governance of Statutory Authorities and Office Holders in June 2003. 17 It was released by the Minister for Finance and Administration on 12 August 2004. The Report recommends that two 'templates' be applied to ensure good governance of statutory authorities: agencies should either be managed by a Chief Executive Officer (CEO) or by a board structure. Both 'templates' detail measures for ensuring the boundaries of responsibilities are better understood and the relationships between Australian government authorities, Ministers and portfolio departments are made clear. 18

### Recommendations

Uhrig recommended that the selection of the management 'template' and financial frameworks to be applied should be based on the governance characteristics of a statutory authority. The principal consideration in deciding which 'template' is appropriate for a given function is 'whether the Government is willing or able to delegate full power to act'. The first is the **board template**: here the government will have determined that it is appropriate for a board to have such power, including power to appoint and remove the CEO, to determine directions, approve policies and corporate plans, and oversee management. It is likely that this template will apply where the function is primarily that of undertaking commercial operations, or where there are multiple accountabilities because the Commonwealth does not own the full equity. The CAC Act will apply to these statutory authorities that are legally and financially separate from the Commonwealth.

The second is the **executive management template**: here the Government will have determined that a full delegation of power is not appropriate. This condition is likely to apply to statutory authorities undertaking regulatory and service provision operations, where an executive management group 'is governed directly by the Minister with departmental support and advice'. The *Financial Management and Accountability Act* 1997 (FMA Act) should be applied to statutory authorities where it is appropriate that they be legally and financially part of the Commonwealth and do not need to own assets. This includes Budget-funded authorities. Uhrig recommended that these organisations should be governed by a CEO.

The Minister for Finance, Senator Minchin, said that ministers would assess all statutory authorities and similar bodies within their portfolios against the review's 'templates'.<sup>22</sup> In January 2006 he reported that more than 160 government bodies were being assessed, and that the governance principles had informed the most recent policy guidance on designing Australian government bodies. 'The Uhrig process is proving very useful in improving and streamlining how government governs itself', he said in a media release.<sup>23</sup>

## Better-practice guidance for boards

In addition to the recommendations intended for the Government in dealing with statutory authorities, the Uhrig Report also includes a set of guidance principles for getting the best from boards of statutory authorities. Because this Bill makes changes to the DHA along the lines recommended by the Uhrig Report, these guidelines are relevant to the legislation. The Uhrig guidelines recommend that:

- 1. Board size should be developed taking into consideration factors such as an entity's size, complexity, risk of operations and the needs of the board.
- 2. Committees are a useful mechanism for the board to enhance its effectiveness through further detailed oversight and supervision of the management of risks that are critical to the success of the entity. Committees should only be used for this purpose.
- 3. In getting the best from boards, appropriately experienced directors are critical to good governance.
- 4. Representational appointments to boards have the potential to place the success of the entity at risk.
- 5. Responsible Ministers should issue appointment letters detailing government expectations of directors.
- 6. Maximum board service periods allow for a structured rotation of directors.
- 7. All boards should have orientation programs and directors should have the opportunity for ongoing professional development.
- 8. Annual assessments of the board need to occur to ensure government gets the best from the board.<sup>24</sup>

## Proposed changes to the operation of DHA

## Changes to the Board

This Bill reduces the size of the DHA board from 12 to 9 members, changes the composition of the board to make it 'more commercially focused', <sup>25</sup> and alters the way in which board members are selected. The new board of DHA will comprise:

- a Chairperson nominated by the Secretary of Defence
- a current or former employee of the Australian Public Service (APS) or Agency Head with a background in Defence, nominated by the Secretary of Defence

- a current or former member of the ADF, nominated by the Chief of the Defence Force
- a person nominated by the Secretary of the Department of Finance and Administration
- a Managing Director chosen by the DHA board
- four commercial members chosen because of their expertise in a range of fields including housing operations, real estate, property development or management, business and finance, building or construction management, or social planning.

The qualifications of the 'commercial' members are not changed by this Bill but the inclusion of a nominee of the Secretary of the Department of Finance and Administration is new. The removal of the Defence spouse representative and three of the four ADF members is in keeping with Uhrig's better-practice guideline 4 that 'representational appointments to boards have the potential to place the success of the entity at risk'. <sup>26</sup> The requirement that appointments to the board be made by the Governor-General is removed. In future, appointments will be made by the Minister for Defence, except in the case of the member who is nominated by the Secretary of the Department of Finance and Administration, who will be appointed by the Finance Minister. All appointments are to be by written instrument (Uhrig's guideline 5) for a renewable term of three years (guideline 6).

## **DHA Advisory Committee**

The six-member advisory committee is to consist of the National Convenor of Defence Families of Australia<sup>27</sup> and representatives from the Army, Navy, Air Force and DHA. The Chairperson of the advisory committee is to be the DHA board member who is nominated by either the Secretary of Defence, or the Chief of the Defence Force. According to the Explanatory Memorandum, '[t]he decision as to who will chair the committee is to be made by the DHA board to ensure that the DHA board can distribute committee workloads appropriately and evenly'. 28 The role of the advisory committee is to give advice and information to DHA about the performance of DHA's functions. The committee may do this either on its own initiative or at the request of DHA. The Explanatory Memorandum states that the board is to be provided with the power to give written instructions to the advisory committee about how to carry out its functions and meeting procedures.<sup>29</sup> This provision does not actually appear in the legislation. Members of the advisory committee are to hold office for three years on a part-time basis, and the National Convenor of Defence Families of Australia is to be paid a remuneration determined by the Remuneration Tribunal.<sup>30</sup> Members may be re-appointed at the end of their term.

## Changes to the functions of DHA

The Bill expands the range of services that DHA can provide to Defence and enables it to broaden its operations to include the provision of services to other Commonwealth agencies. DHA's primary function is to provide housing and housing-related services to members of the ADF and their families, to meet the operational requirements of Defence. This Bill will broaden DHA's powers to allow it to provide ancillary services which may include the provision of access to services provided by other service providers, such as recreational, educational and financial service providers. The Explanatory Memorandum states that the intention is 'not to limit the potential ancillary services by defining them precisely'. However, there must be a connection between any proposed ancillary service and housing or housing-related services.

The second additional function provided by this Bill will allow DHA to provide housing and housing-related services to officers and employees of other Commonwealth agencies, or to persons contracted to provide goods or services to officers and employees of other Commonwealth agencies and their families, in order to meet the operational needs of that agency. A Commonwealth agency is defined using the definition of 'agency' under the FMA Act. A media release dated 4 April 2006 suggests that DHA is already providing housing and relocation services to members of the Australian Customs Service. 32

The Minister's approval is required for the exercise of both the additional functions. The Minister may determine, in general terms, who the services can be provided to, the kind of services that can be provided and any other matter. The Minister does not have to approve each individual contractual arrangement provided that it is within the scope of the determination.

A limit will be placed on the extent to which DHA can undertake these new functions. In order to protect the interests of Defence and to ensure that DHA maintains its primary focus, it will be able to earn no more than 25 percent of its total gross revenue from performing the additional functions. The limit may be varied to less than 25 percent by regulation. The Explanatory Memorandum says that there will be an administrative review of the 25 percent limit after the amendments have been in place for three years.<sup>33</sup>

## Proposed changes to the financial framework

Reliance on the CAC Act

The Bill repeals at least nine sections that deal with the manner in which DHA can perform its functions and its financial and reporting obligations. In future DHA will be subject to the provisions of the CAC Act. The Explanatory Memorandum notes that the proposed changes will give the DHA board more 'freedom to determine its directions, strategies and to manage its risks<sup>34</sup> while the obligations placed on Commonwealth Authorities by the CAC Act, including reporting and accountability, banking and

investment, and the conduct of officers, are 'consistent with the obligations placed on other government business enterprises'. <sup>35</sup>

### Removal of taxation exemption

The Bill makes DHA liable for Commonwealth taxation in future. In addition, although DHA will retain its exemption from state and territory taxation, it will be required to make tax-equivalent payments to the Commonwealth. The rationale for these new arrangements, according to the Explanatory Memorandum, is to ensure 'that DHA does not receive a competitive advantage by virtue of its exemption from State and Territory taxation'. The effect of these changes may be to increase the costs of DHA, while putting it on a more commercial basis. No figures are provided by the Government as to the extent of DHA's potential taxation liability.

## Financial implications

According to the Explanatory Memorandum. this Bill will have no financial implications for the Commonwealth.<sup>37</sup>

## Main provisions

**Items 1** and **2** of **Schedule 1** change the name of the Defence Housing Authority to 'Defence Housing Australia'. The acronym DHA will continue to be used as a brand name.

### Changes to the functions of DHA

Items 14 to 21 deal with the functions of DHA. Item 14 inserts the word 'main' before the word 'function' in both the heading and in subsection 5(1). The effect of this change is to reinforce that DHA's primary responsibility remains the provision of housing to Defence. It also indicates that DHA has other responsibilities. Items 16 and 20 add 'housing-related services' to DHA's main function. The provision of housing-related services (for example, rent assistance payments to members of the ADF) does not depend on eligible people receiving housing from DHA. This would allow ADF personnel to rent accommodation from suppliers other than DHA and still receive rental assistance payments through DHA.

**Item 18** clarifies to whom DHA can provide housing and housing-related services. The changes proposed by **item 18** allow DHA to provide housing to Defence contractors and the contractors' families. This would enable Defence to engage a contractor and, as part of the contractual arrangement, agree to supply the contractor's housing.

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**Item 22** repeals the existing section which spells out the way in which DHA must perform its function, namely 'in a manner that accords with Commonwealth policies and sound commercial practice'. According to the Explanatory Memorandum, this requirement will in future be covered by section 28 of the CAC Act.

### Additional functions

Item 22 also inserts a **new section 6** that will enable DHA to provide housing and housing-related services to officers and employees of other Commonwealth agencies, or to people contracted to provide goods or services to officers and employees of other Commonwealth agencies and their families, in order to meet the operational needs of that agency (**new subsection 6(1)**). In addition, **new subsection 6(2)** allows DHA to provide services that are ancillary to housing and housing-related services to Defence and other Commonwealth agencies in order to meet their operational needs. The Minister's approval is required before DHA can provide the additional services (**new subsection 6(4)**). A limit of up to 25 percent of DHA's total gross revenue is placed on the amount of revenue that DHA may make from additional services in any one financial year (**new subsections 6(6)** to **6(8)**).

### Ministerial powers

At present DHA must seek written ministerial approval before entering into a contract requiring the payment by it of an amount exceeding \$6 million. **Item 26** retains this limit but adds, by **item 27**, a provision allowing the Minister to vary the limit in line with changes in Government policy or changes in the economic and commercial operating environment.

### DHA Board

Item 37 inserts a **new Part III** dealing with the Board. The Board of Directors of DHA is to consist of nine members. Eight members, including the Chairperson, are to be appointed by the Minister for Defence, and one member by the Minister for Finance and Administration (**new subsection 14(1)**). The board is to comprise four commercial members, the Chairman and the Managing Director, two members with a Defence background, and one member nominated by the Secretary of the Department of Finance (**new paragraphs 12(1)(b)** to (**f**)).

### **DHA Advisory Committee**

**Item 69** inserts a **new Part IIIA** establishing an advisory committee of six members. Under **new section 27** the advisory committee will consist of the National Convenor of

Defence Families Australia, together with representatives of the Royal Australian Navy, the Australian Army, the Royal Australian Air Force and DHA. The advisory committee is to be chaired by one of the two board members with a background in Defence. **New section 28** provides that the function of the advisory committee is to give advice and information to DHA about the performance of DHA's functions, either on its own initiative or at the request of DHA. The legislation does not appear to restrict the advisory committee to passing its advice and information only through the board. The Explanatory Memorandum refers to 'new section 30' which is apparently intended to give the board power to provide written instructions to the advisory committee about how it is to operate. However, item 75 repeals section 30 and does not substitute any further provision. There is no 'new section 30' in the Bill.

### Changes to taxation arrangements

Two main changes are introduced. **Item 115** inserts **new section 62A** making DHA liable for Commonwealth taxation. DHA retains its exemption from state and territory taxation, but must make tax-equivalent payments as directed by the Minister (**new section 63A**). The Minister's written notification of the tax-equivalent payments may cover more than one financial year.

## Concluding comments

In 2002–03, the Australian National Audit Office (ANAO) conducted a performance audit of Defence housing and relocation services.<sup>38</sup> The purpose of the audit was to assess whether Defence's management of its housing and relocation services for ADF members met 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, in part because section 16 of the *Auditor-General Act 1997* states that the ANAO may conduct a performance audit of a government business enterprise such as DHA, only if the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit requests the audit.

One of the findings of the audit was that the standard of housing provided by DHA to Defence 'exceeds Defence's specified requirement'. This may be explained by Defence's aim to maintain a high rate of satisfaction among ADF members and their families with their housing arrangements because this assists retention of valuable Defence personnel. According to the ANAO audit report, 'Defence has largely accepted this outcome, despite the cost implications'. The audit report recommended that in future, Defence needed to manage its housing arrangements strategically and ensure that the services that it received from DHA both met its housing requirements and provided value for money. The changes proposed by this Bill, in particular the restructuring of the board of DHA and the changes to its taxation regime, may have further implications for Defence.

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Attention is drawn to a possible technical flaw in the proposed legislation. Item 75 repeals section 30. The Explanatory Memorandum refers to a 'new section 30' but this provision is not included in the Bill.

### **Endnotes**

1. Defence Housing Authority Act 1987, sections 5 and 6.

- 3. ibid., p. 25.
- 4. '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'. Hon. Ian MacFarlane, 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'. Hon. Danna Vale, Minister Assisting the Minister for Defence, *Media Release*, 2 April 2003.
- 5. Defence Housing Authority, *Annual Report* 2004–05, pp. 31–2.
- 6. 'Defence' comprises the Department of Defence and the Australian Defence Force (ADF). The ADF comprises the three Services (Army, Navy and Air Force) and has some 51,500 full-time members.
- 7. Defence Housing Authority, *Annual Report* 2004–05, p. 7.
- 8. ibid.
- 9. ibid.
- 10. Defence housing and relocation services: Department of Defence, Australian National Audit Office,2003,p.11
  <a href="http://www.anao.gov.au/WebSite.nsf/Publications/03034794DB677D31CA256D4A00202A55/">http://www.anao.gov.au/WebSite.nsf/Publications/03034794DB677D31CA256D4A00202A55/</a>
  5/\$file/Audit+Report+51.pdf
- 11. The other two board members, making a total of 12, are the Chairperson and the Managing Director.
- 12. Hon Bruce Billson, 'Second Reading Speech: Defence Housing Authority Amendment Bill 2006', House of Representatives, *Debates*, 30 March 2006, p. 8.
- 13. R. Grant, 'The Uhrig Review and the future of statutory authorities', *Research Note*, no. 50, Parliamentary Library, Canberra, 2004–05, p. 2.
- 14. At the time of his appointment to undertake the inquiry, Mr Uhrig was chairman of Santos Ltd and a former chairman of Rio Tinto, Westpac and the Australian Manufacturing Council. Within the public sector, he had served as member of the original National Companies and Securities Commission, the Export Finance and Insurance Corporation, and the South

<sup>2.</sup> Defence Housing Authority, *Annual Report* 2004–05, Canberra, 2005, p. 7.

Australian Remuneration Tribunal. (R. Wettenhall, 'Statutory authorities, the Uhrig Report and the trouble with internal inquiries', *Public Administration Today*, Dec–Feb. 2004–2005, p. 62.

- 15. J. Uhrig, *Review of the corporate governance of statutory authorities and office holders*, June 2003, Commonwealth of Australia, Canberra, <a href="http://www.finance.gov.au/governancestructures/docs/Uhrig report.rtf">http://www.finance.gov.au/governancestructures/docs/Uhrig report.rtf</a>
- 16. ibid., p. 17.
- 17. ibid.
- 18. Senator the Hon N. Minchin, Minister for Finance, 'Australian Government response to Uhrig Report', *Media Release*, 12 August 2004,

http://www.finance.gov.au/scripts/Media.asp?Table=MFA&Id=550

- 19. J. Uhrig, op. cit., p. 12, point 6.
- 20. ibid., p. 79.
- 21. ibid., p. 85.
- 22. Senator the Hon. N. Minchin, op. cit.
- 23. Senator the Hon. N. Minchin, 'Uhrig Review: progress with implementation', *Media Release*, 5 January 2006; also Department of Finance and Administration, *Governance implementation update (Uhrig Review): how is the assessment process progressing?*, February 2006.
- 24. J. Uhrig, op. cit., pp. 12–13.
- 25. Explanatory Memorandum, item 39.
- 26. J. Uhrig, op. cit., p. 13.
- 27. Defence Families of Australia (DFA) was formed in 1986 to represent the views of Defence families. According to their website (<a href="http://www.dfa.org.au/about.php">http://www.dfa.org.au/about.php</a>) '[t]he aim of DFA is to improve the quality of life for Defence families by providing a recognised forum for their views and by reporting, making representations and influencing policy that directly affects families'. Throughout this Bill, DFA is referred to as 'Defence Families Australia'.
- 28. Explanatory Memorandum, item 69.
- 29. ibid., item 69, referring to 'new section 30'.
- 30. At present the National Convenor of Defence Families of Australia carries out her role on a voluntary basis.
- 31. Explanatory Memorandum, item 22.
- 32. Hon. Gary Nairn, Special Minister of State, '\$100m investment in Defence Housing Authority portfolio', *Media Release*, 4 April 2006.
- 33. Explanatory Memorandum, item 22.
- 34. Explanatory Memorandum, item 40.
- 35. ibid., items 28, 29 and 30.

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- 36. ibid., item 119.
- 37. ibid., [p. 2].
- 38. Defence housing and relocation services: Department of Defence, op. cit.
- 39. ibid., p. 15.
- 40. ibid.

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