



ADSO ALLIANCE OF DEFENCE SERVICE ORGANISATIONS

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Committee Secretary
Senate Foreign Affairs, Defence and Trade Committee
PO Box 6100
Parliament House
CANBERRA ACT 2601

SUBMISSION TO THE SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE COMMITTEE INQUIRY INTO THE OPERATIONS OF DEFENCE HOUSING

Introduction

The group of ex-service Associations that make up the Alliance of Defence Service Organisations (ADSO)¹ welcomes the opportunity to make a submission to the Senate Committee's Inquiry into the 'Operations of Defence Housing Australia'. ADSO deems such an inquiry critically important for good reason.

Despite official Government denials to the contrary, evidence clearly points to at least one of the two shareholders of DHA, namely the Department of Finance, having been in quiet, almost secretive pursuit, to privatising DHA. Seemingly, it continues to do so to this day. Notwithstanding that the Company has an undeniable proven record of delivering on a condition of service universally deemed as one of the most important to members of the ADF and their families. DHA's ability to successfully provide those families with high quality housing and other accommodation throughout all States/Territories of Australia is without precedent.

Put simply, ever since the Lazard Review was announced on 5 August 2014 to scope the future ownership of DHA, the Defence community as a whole, including every major Ex Service Organisation (ESO), began to be increasingly concerned that what was really ultimately intended was an asset sale singularly aimed at bolstering a parlous known budgetary bottom line. The secretive nature of the study with its then evidently secret recommendation to sell did nothing to alleviate the concerns of ADSO or other stakeholders. Similarly, the announcement by the Minister for Finance on 11 May 2015 that the Government had decided 'not to sell at this time' failed to quell such suspicions, particularly after KordaMentha (a consultancy company widely known as insolvency experts administering enterprises facing financial difficulty) had been appointed to forensically review DHA accounting, IT and business reporting systems.

Given the already well-proven track record of DHA, it remains a complete mystery as to why such an action would have even been contemplated, let alone initiated. The ADSO respectfully urges the Senate inquiry to use its broad Terms of Reference to perform its own forensic review to rigorously enquire into what could have possibly motivated such an appointment on a universally recognised well-run, profitable and service-orientated business unit of the Commonwealth Government delivering high returns to its shareholders.

The ADSO also requests the Senate Standing Committee to forensically and vigorously inquire into the following matters:

- Why the CEO of such a successful Government Business Enterprise as DHA was inexplicably removed from office in the very week in which he was awarded the honour of being the National Customer Service CEO of the Year at the Australian Service Excellence Awards. It is not an exaggeration to contend that such an action must have surely generated significant embarrassment among DHA Board members and at Government level;
- Why such a successful and productive CEO was replaced with a Department of Finance senior bureaucrat without notice, without any appropriate global search for a suitable candidate, and without any announced plan or intention to search for such a candidate;
- Why neither the Chief of Defence Force nor the Minister for Defence herself were consulted or, as a matter of professional courtesy, informed beforehand of such critical changes within DHA's most senior management ranks. Perplexing, given both have a specific and important interest in DHA, and indeed are direct stakeholders/shareholders in the enterprise.

It is the ADSO's contention that the secretive actions by the Government, in particular the Department of Finance, are inconsistent with being an honest broker – a duty that is binding on the Government and all Commonwealth Departments in their day-to-day dealings with all their stakeholders, including in this instance, the Defence Minister, the CDF and, surely not to be overlooked by those in Finance, the serving ADF members and their families.

Although this submission will examine and provide broad comment on the crux of the inquiry, namely the operations of DHA, it will concentrate throughout on ADSO's key concern that relates to the seeming on-going push to privatise an enterprise that has been so successful in delivering a key condition of service to ADF members.

Terms of Reference 1 and 2

-Senior Management Arrangements and Board Composition -Meeting Requirements of Defence Housing Act 1987

While DHA's success may be well known to most if not all the members of the Senate Standing Committee, ADSO considers that in this instance, a brief overview of DHA's performance and profitability is appropriate. This is considered necessary to put into context as to why either the Lazard or the KordaMentha reviews were necessary in the first place.

The need for either review perplexed ADSO and the Defence community as a whole. It is commercially axiomatic that successful companies, their Boards and CEOs are largely left alone by shareholders to manage the business enterprise without interference, particularly if their delivery performance by market standards and customer satisfaction ratings are both very high. ADSO considers the following questions need to be addressed by the Standing Committee:

1. Why look to fix a problem that seemingly never existed?; and
2. Why initiate scoping studies in endless efforts to find reasons to sell such a profitable and effective business asset when no compelling evidence appears to exist to justify them?

The above questions are given further credence by the fact that in its 2014-15 Annual Report, DHA states that the company was outstanding in meeting the housing and related services needs of the members of the ADF and their families.

In so doing, DHA was in strict compliance with the *Defence Housing Australia Act 1987* (DHA Act), as amended, and in compliance with varying Service Agreements with the Department of Defence through the following:

- Supplying quality, economic and environmentally-sound housing that matches wider community standards and expectations;
- Achieving an exceptional degree of client and customer satisfaction;
- Achieving financial results that not only meet or exceed shareholder and investor expectations, but also allow it to be a fully self-funded, tax-paying enterprise, returning annual dividends to the benefit of the Government's bottom line.

The proposal to sell, or even commission insolvency experts to forensically review the entirety of DHA's operation does not, on any available evidence, stand up.

This is further reinforced by the sitting Chairman of its Board himself reporting that DHA has grown to become a *'dynamic and service oriented organisation ...that 'continues to play a vital role in supporting the Australian Government by delivering effective and efficient housing and related services for ADF members and their families'*.

The Chairman also reported the company *'returned an annual dividend to Government coffers in 2014/15 of \$141 million before tax and interest against a budget of \$132 million'* while at the same time providing ADF members with a highly-valued condition of service for which there has been universal acclaim.

ADSO has major concerns that the Department of Finance, having largely self initiated a series of reviews and having successfully played a part in ridding the company of a peer-acclaimed CEO of the year (under whose tenure the Company has consistently value-added to the Government's bottom line), appears so irrevocably committed to siphoning off capital and operating funds for a one-off \$2 billion plus financial windfall to the Government – at the expense of ADF members.

Such a short-term fix to a problem that seems to have not been evident to anyone, with its consequential disastrous effect on an entity lauded by ADF and other stakeholders, is considered to be indefensible and unconscionable conduct. ADSO contends that such conduct is in clear breach of the Government's duty to act as an honest broker. The potential detriment to ADF families and other stakeholders is condemned by ADSO.

It is common ground that over many years and at every turn, the Department of Finance has been known to fiercely oppose any and all attempts to redress wrongs that the Department itself has inflicted on the veteran community. Examples abound but two include fair indexation of ADF superannuation and fair benchmarking of Veterans' Disability Pensions. ADSO hopes that the Senate inquiry examines this record of seeming antagonism and denial of justifiable equity and access to benefits and services, towards those who have served their country militarily in uniform.

ADSO is deeply concerned and does believe that DHA, a successful enterprise by any measure, is at risk from the privatisation aspiration of the Department of Finance. Selling it would likely sap the moral of ADF members and their families and thereby put at risk even that which underpins Australia's defence capability.

Management Upheavals - Defence Minister and CDF Blindsided

ADSO continues to maintain its position that the Department of Finance, by initiating a continual and unnecessary series of reviews into DHA, has lost sight of the fact that, while the company has two Shareholder Ministers to whom it reports, namely the Minister for Defence and the Minister for Finance, DHA unequivocally sits within the Defence portfolio (DHA Annual Report Page vii).

This begs the question. How can it be that both the Defence Minister and the CDF himself, direct stakeholders/shareholders in DHA, could have been blindsided by not only the events that bore witness to the critical changes within DHA's senior management ranks, but also by the strong rumours that it was all to do with a push to privatise the company and reap the potential benefit to the bottom line of its \$2.9 billion plus property portfolio, leaving it perhaps to manage only rental tasks. The Defence Minister was reported to have said that she was '*not involved in any way*', and that '*questions should be directed to the Department of Finance*' (Canberra Times 11Nov15).

As for the CDF, his anger was palpable and on full display on the day after DHA's CEO was removed from office. Looking to quell concerns among the men and women under his command he pronounced: '*DHA is an essential service for ADF personnel and families*'. He was clear that on that basis he did not support privatising the very body that provides that service so effectively.

The CDF went on to state that '*DHA provides a single point of contact that understands the unique requirements and demands military service can present*'. And stated also that '*Defence and DHA had built a positive and productive relationship over many years to meet the specific housing needs of ADF personnel that helps to mitigate many of the challenges service life entails*.'

ADSO agrees completely with the CDF's sentiments and requests the Senate Standing Committee issue a cordial invitation to him to give him an opportunity to put on record his thoughts as to the importance he places on retaining the successful business model under which DHA operates.

ADSO is mindful that DHA was established in 1988 specifically to correct a serious problem in Defence housing, namely, that the poor housing standards across Defence and, oft as not inappropriately located housing, were a significant factor in the retention of its personnel. Thanks to the initiative that created DHA, a problem in that regard no longer exists. Housing is generally affordable and in large part well located to where ADF members serve.

Terms of Reference 3 - Lazard and KordaMentha Reviews

Lazard

Not lost on ADSO members when the Lazard Scoping Study was announced to examine the future ownership of DHA, was that while the Government had every right to look at these matters, missing from its Terms of Reference was the requirement to clinically and rigorously assess, should the study recommend selling, how a commercial buyer with logically an eye to maximising its profits, could achieve at least one of the stated aims of the study, that being to '*maintain service and quality levels for customers and private investors*'.

The other aims give no weight to what impact selling would have on the serving men and women who were the sole beneficiaries of the critical condition of service that DHA has been able so effectively to deliver. The aims related only to: maximising a financial benefit to the Government and minimising its liabilities and risks.

The Lazard study was concluded but its contents still remain under wraps. It is not an exaggeration to postulate that Lazard's final recommendation to privatise remains an open secret. It would appear that on balance, political pressure undoubtedly motivated the Finance Minister to announce that the Government had decided to retain ownership of Defence Housing Australia, '*at this time*', an entirely fortuitous occurrence. Whilst this announcement is good news and is warmly welcomed by ADSO, it offers no real comfort or guarantees that further reviews will not be undertaken in an effort to strip DHA of its \$2.9 billion plus property portfolio, including its \$1.3 billion/annum revenue stream. Selling DHA would likely leave it with limited or no ability to service the men and women of the ADF in the extraordinarily successful way it has to date.

KordaMentha

Given that the Government had decided to retain ownership of DHA (with no guarantees that further reviews would not be undertaken), ADSO questions why it became necessary to concomitantly announce that it would, however, *'take steps to improve Defence Housing Australia's operations to ensure it can continue to deliver quality housing and accommodation services to members of the Australian Defence Force'*.

A highly successful operation using proven business models and managed competently by its CEO needing another forensic review by an insolvency expert of DHA's accounting, IT and business reporting systems is considered by ADSO highly questionable and unnecessary.

ADSO members continue to struggle with what could have motivated those in the Department of Finance who thought such a proposal would not merely create anxiety and instability within DHA itself, but also throughout both the wider ADF community and among the investors/stakeholders in DHA. Sale and lease back arrangements known to represent approx.30% of cash injections were particularly at risk. No known risk or other assessment appears to have been undertaken by Finance to mitigate how investors might view this new imposition on DHA operations.

ADSO is unaware as to how the then CEO viewed this further Finance-imposed KordaMentha initiative. Nor to what extent he may have resisted the on-going bureaucratic interference in his otherwise successful business model. What is evident is that he was replaced with little ceremony soon after KordaMentha's arrival on the scene, and thereafter without ceremony immediately replaced by a Deputy Secretary, Department of Finance. The appointment seems on its face to be inconsistent with good management practice.

ADSO encourages the Senate inquiry to examine the circumstances surrounding the real reason for KordaMentha's appointment and whether it played a part in influencing the demise of DHA's successful CEO.

Terms of Reference 4 - Role of Land Sales

ADSO is cognisant of the fact that land acquisition efforts and sale of Defence-owned land forms an important part of the DHA business model for growth. It provides the basis for a return-on-equity that is the envy of many construction/land development enterprises. More importantly, acquiring and selling land allow DHA to continually improve availability of quality housing to both ADF families and single individuals around Australia, including in remote localities.

While most acquisitions/sales arrangements are simple non-controversial commercial arrangements, DHA's 'one-time' proposal to sell off land for civilian housing in the military married quarters area known as Seaward Village, is quite different. The Village is part of the Swanbourne Military Area and is located immediately adjacent to Campbell Barracks, the home base of the Special Air Service Regiment (SASR). When announced, DHA's proposal to sell-off land was met with immediate opposition not only from the spouses living in Seaward Village, but also from various local civilian community groups, the WA media, and from local Federal and State political representatives. In short, it was a widely unpopular proposal.

The opponents to the proposal were concerned that the land sale would compromise the safety and security of ADF families living in the Village, and interfere with both SASR's security and its operational and training preparations, the latter being conducted in specialist training facilities within the Barracks precinct. ADSO welcomed the news that the Seaward Village land sale proposal has been halted by the Government and that a review of the DHA land sale initiative would be conducted with a report due by 29 February 2016. ADSO opposes the land sale in Seaward Village and is now optimistic that the final outcome will recognize the immediate and longer-term dangers inherent in the land sale proposal.

Summary

ADSO welcomes the opportunity to make a submission to the Senate Committee's Inquiry into the 'Operations of Defence Housing Australia'. To the serving Defence community, the ready availability of quality and affordable Defence housing is not only an important condition of service, but also a critical element that serves to enhance Australia's defence capability. In the CDF's own words, *'it helps to mitigate many of the challenges service life entails.'*

The CDF is opposed to the sale of DHA, as is every member of the Alliance of Defence Service Organisations (ADSO)¹ - see the full list of members below.

ADSO requests that the Senate Standing Committee in its deliberations, enquire into and examine in close detail, the following:

- Why the successful CEO of DHA was inexplicably removed from his post in the very week he was honoured by his peers to receive the award of **National Customer Service CEO of the Year** at the Australian Service Excellence Awards;
- Why the successful CEO was replaced with a Department of Finance senior bureaucrat;
- Why the Minister for Defence and the Chief of Defence Force (both DHA stakeholders) were not consulted nor seemingly informed beforehand as a matter of professional courtesy of the impending changes at the top of DHA's senior management structure;
- Why the need existed for a Scoping Study when no compelling reasons existed to sell DHA – given that its return-on-equity is the envy of most commercial enterprises;
- Why contemplate a sale or commission insolvency experts to forensically review DHA when its commercial business performance is deemed exceptional and delivering services universally acclaimed to be of a high standard by ADF members; and
- Why was KordaMentha appointed?

Finally, ADSO is of the strong opinion that DHA does make a difference to the lives of ADF members and their families. The company's future plans show that they are fully capable of maintaining the excellence of their service delivery in the coming years. To be able to do that they need, above all, a stable business environment and long term guarantees that their business plans are not regularly the subject of interference from bureaucratic influences.

If there is a need for any clarification of matters raised in this submission I would be happy to provide this verbally and/or in writing if requested.

Yours Sincerely

Colonel David Jamison AM (Rtd)

National President

Defence Force Welfare Association

¹ **ADSO comprises:**

The Defence Force Welfare Association (DFWA), Naval Association of Australia (NAA), RAAF Association (RAAFA), Royal Australian Regiment Corporation (RARC), Australian Special Air Service Association (ASASA), Vietnam Veterans Association of Australia (VVAA), the Australian Federation of Totally and Permanently Incapacitated Ex-Service Men and Women, the Fleet Air Arm Association of Australia, Partners of Veterans Association of Australia, Royal Australian Armoured Corps Corporation (RAAC), the National Malaya & Borneo Veterans Association Australia (NMBVAA), the Defence Reserves Association (DRA), the Australian Gulf War Veterans Association, Military Police Association Australia (MPAA), and the Australian Army Apprentices Association.

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