The Parliament of the Commonwealth of Australia

The Defence Service Homes Scheme

Report from the House of Representatives Standing Committee on Expenditure

May 1978

AUSTRALIAN GOVERNMENT PUBLISHING SERVICE
CANBERRA 1978

Printed by C. J. THOMPSON, Commonwealth Government Printer, Canberra

MEMBERSHIP OF THE COMMITTEE

Chairman:	The K. M. Cairns, M.P.*
Deputy Chairman:	The F. E. Stewart, M.P.*
Members:	Mr K. J. Aldred, M.P.*
	Mr J. J. Brown, M.P.*
	Mr D. M. Connolly, M.P.[1]
	Mr J. S. Dawkins, M.P.
	Dr H. R. Edwards, M.P.*
	Dr R. E. Klugman, M.P.*
	Mr B. Lloyd, M.P.
	Mr S. A. Lusher, M.P.
	Mr R. M. McLean, M.P.
	Mr P. F. Morris, M.P.
Clerk to the Committee:	Mr M. E. Aldons
Adviser to the Committee:	Mr C. Walsh

1. Chairman of the Joint Committee of Public Accounts who, in accordance with Clause (2) of the Resolution of Appointment is a member of the Expenditure Committee.

* Members of the Sub-committee which conducted the inquiry.

Clerk to the Sub-committee:	Mr M. E. Aldons

MEMBERSHIP OF THE COMMITTEE IN THE 30th PARLIAMENT

Chairman:	The Hon. K. M. Cairns, M.P.
Deputy Chairman:	The Hon. F. E. Stewart, M.P.
Members:	Mr K. J. Aldred, M.P.[1]
	Mr M. H. Bungey, M.P.[2]
	Mr D. M. Connolly, M.P.[3]
	The Hon. F. Crean, M.P.
	Dr H. R. Edwards, M.P.[4]
	Mr C. J. Hurford, M.P.
	Dr H. A. Jenkins, M.P.
	Mr S. A. Lusher, M.P.
	Mr J. W. Sullivan, M.P.
	Mr R. Willis, M.P.[5]
Clerk to the Committee:	Mr M. E. Aldons
Adviser to the Committee:	Mr C. Walsh

1. Replaced the Hon. R. V. Garland, M.P. (resigned) on 13 September 1977.
2. Replaced the Hon. I. M. Macphee, M.P. (resigned) on 17 November 1976.
3. Chairman of the Joint Committee of Public Accounts who, in accordance with Clause (2) of the Resolution of Appointment, is a member of the Expenditure Committee.
4. Replaced the Hon. W. C. Fife (resigned) on 18 August 1977.
5. Replaced Mr R. Jacobi, M.P. (resigned) on 25 May 1976.

TERMS OF REFERENCE:

That a Standing Committee be appointed to:

(a) consider any papers on public expenditure presented to the House and such of the estimates as it sees fit to examine;

(b) consider how, if at all, policies implied in the figures of expenditure and in the estimates may be carried out more economically;

(c) examine the relationship between the costs and benefits of implementing government programs, and

(d) inquire into and report on any question in connection with public expenditure which is referred to it by the House.

CONTENTS

RECOMMENDATIONS

The Committee recommends that:

1. the Government appoint a suitably qualified person from outside the Public Service to assess the relative effectiveness of programs designed to attract persons into and retain them in the Services and to devise methods to enable continuing measurement or assessment of the effectiveness of these programs. (Paragraph 55).

2. the Minister for Veterans' Affairs define and explain the objectives of the Defence Service Homes Scheme to the Parliament. (Paragraph 60).

3. the long title of the Defence Service Homes Act 1918 be amended to read as follows: An Act to assist eligible persons to acquire a residential dwelling. (Paragraph 107 (a)).

4. the Defence Service Homes Act 1918 be amended to allow eligible persons to choose to receive either a housing loan or a cash grant which would also be used to acquire a residential dwelling. (Paragraph 107 (b)).

5. the size of the grant to be determined in the legislation and reviewed periodically. (Paragraph 107 (c)).

6. there be no application fee for those who receive grants. (Paragraph 107 (d)).

7. the Government prepare for distribution a pamphlet on the new options available to eligible persons. (Paragraph 107 (e)).

8. that the Minister for Finance determine that the interest rate payable by the Defence Service Homes Corporation on its total accumulated capital be the current long-term bond rate, so that the Interest Subsidy item in Appropriation Bill No. 1 will in future reflect the full economic cost of the concessional interest rates applied to DSHS loans. (Paragraph 110).

9. the numbers of staff used in the processing of new applications in the Defence Service Homes Corporation State Offices of Victoria, South Australia and Tasmania be reduced by 8 staff, 4 staff and 2 staff respectively. (Paragraph 127).

10. the Defence Service Homes Corporation undertake a cost-effectiveness study to determine whether magnetic tape units should be used—

- to obtain cost savings by sharing the computer facility with departments; and
- as an alternative to microfiche in registry work. (Paragraph 138).

11. the Department of Veterans' Affairs, the Department of Finance and the Public Service Board undertake a cost-effectiveness study of alternative methods of collecting repayments from borrowers. (Paragraph 148).

12. annual reports of the Defence Service Homes Corporation include information on unit costs of processing new applications and maintaining securities in each State Office and information on the number of man-days taken to process new applications in each State Office. (Paragraph 161).

13. appropriate changes be made to relevant legislation to allow persons who obtain loans under the Defence Service Homes Scheme to insure their properties with the company of their choice. (Paragraph 165).

CHAPTER I
SUMMARY[1]

This Report represents the first in-depth and searching examination of the Defence Service Homes Scheme (DSHS) which came into operation in 1919, almost 60 years ago.

2. The categories of persons eligible for DSHS benefits have been extended progressively since 1919 to cover first those who served in World War II, then other campaigns and, since 1973, serving members of the armed forces as well. Basically DSHS, as it operates today, assists eligible persons to acquire a residential dwelling. It does this by giving eligible persons housing loans which, although they do not go anywhere near to covering the cost of say a standard 3 bedroom house, nevertheless give eligible persons significant concessions because of the low interest rate charged. Eligible persons can now borrow up to a maximum of $15,000 over 32 years at an average interest rate of 4.5%.

3. The scheme makes a significant call on the resources of the public sector. Finance is required for the lending programs (over $90m in 1977-78), to pay into the Consolidated Revenue Fund the interest subsidy ($25m in 1977-78) which is said to reflect the difference between interest payable to the Commonwealth and the interest earned by the Defence Service Homes Corporation (the Corporation) and to pay for the costs of administering the scheme (over $16m in 1977-78). Not only is total expenditure in excess of $130m but it is likely that because of the nature of DSHS similar sums of money will be required in perpetuity.

4. Against this background the Committee's inquiry has been concerned primarily with an examination of whether:

- there is a more effective way to deliver the benefit than by giving housing loans at concessional interest rates;
- the scheme is being administered economically and efficiently.

5. The second chapter of this Report describes the nature and operation of DSHS. But before the Committee can proceed to examine program alternatives or efficiency and economy in administration it is necessary to start with an examination of the objectives or purposes of the scheme. The experience of the Committee is that the objectives of many programs are not specified clearly, with the result that it is not easy to know precisely what is intended and this in turn makes effective scrutiny by the Parliament more difficult.

6. The purposes of assisting eligible persons to acquire a house as stated in Chapter III are to reward those who serve their country in times of war, to attract and retain persons to the armed Services and to compensate such persons for the housing-related disabilities they experience while in the Services. While the objectives of the DSHS thus stated are reasonably clear this clarity is more the result of the Committee's interpretation of what it has been told than the effect of a clearly specified set

1. A list of witnesses who appeared before the sub-committee and a description of the evidence taken by the sub-committee is at Appendix 1.

of objectives. After a careful examination of the program and its objectives the Committee has reached the conclusion that it is necessary for the objectives to be restated and explained to Parliament and an appropriate recommendation will be made (see paragraph 60). *The Parliament has a right to be informed.*

7. But whatever the objectives are, be they to reward persons who serve their country in times of war, or to attract and retain persons to the Services, or to compensate these persons for housing-related disabilities it does not follow that such reward or compensation must take the form of a housing loan. As an alternative to the housing loan at concessional interest rates the Committee has examined the feasibility of giving eligible persons a cash grant.

8. The cash grant proposal is another way of achieving the policy objectives. Examination of this proposal is undertaken in Chapter IV and has required the careful consideration of complex issues. In this examination the Committee has established criteria against which the feasibility of the cash grant was tested. The more important of these criteria were whether the grant would:

- cost more than the present concessional interest housing loan;
- benefit most recipients of DSHS.

9. The case for the cash grant rests in part on the fact that there is an interest rate concession which has a cost: the difference between 4.5% and the cost to government of borrowing the money at the long-term bond rate (LTBR). This cost, or concession, which is incurred for each month of the loan over the life of the loan, can be converted to a single figure and given as a cash grant. This can be shown by a simple example. Under DSHS the maximum loan (at 4.5% over 32 years) requires a monthly repayment of $73.82. If one retains this repayment and requires the recipient to pay interest at the LTBR (9.1%) the amount he would be able to borrow is $9,200. So a person borrowing from DSHS receives a concession equivalent to giving him $5,800 while requiring him to borrow the other $9,200 at 9.1% over 32 years.

10. The Committee first examined the feasibility of a non-optional or exclusive cash grant; in other words the replacement of the loans scheme with a grants scheme. This kind of grant held out the prospect of the size of the benefit being related to what governments wanted to fix as the amount of the reward for service in times of war and so forth, rather than letting the real value of the grant vary because LTBR's change (see paragraph 74). It was recognised, however, that the size of the first grants would be related to the value of the present concession as illustrated in paragraph 9. Using a more refined method than that used in that paragraph the Committee calculated the basic size of the grant (Appendix 4) to which was added an allowance for the reduction in administrative costs that would result from the introduction of an exclusive cash grant. These calculations suggested an exclusive cash grant of $6,000.

11. A grant of $6,000 would require persons to obtain the balance $9,000 ($15,000-$6,000) from lending institutions. Detailed comparisons have shown that most recipients would benefit in that their monthly repayments would not be higher than what they would pay the Corporation. The main reason for this is that the exclusive grant should eliminate the waiting period and thus save the costs of temporary finance ($1,500 on average) which is now incurred by the majority of those who seek the DSHS benefit. It can be shown that for some persons who obtain both second mortgage and temporary finance from institutions that charge high interest rates over short repayment periods, the exclusive grant could lead to a reduction in monthly repayments of about $50.

12. The conclusion reached is that the exclusive cash grant has a lot to offer. In fact if one was starting from scratch this grant would be an ideal method of delivering the DSHS benefit; but the Committee realises that it is examining a scheme that has been in existence for almost 60 years. An exclusive grant will not benefit a small minority of eligible persons. It also accepts that a fundamental change of this type should be introduced gradually. For these and other reasons, therefore, the Committee has concluded that the introduction of an exclusive cash grant would be premature.

13. However, an optional grant, by which eligible persons can choose between the loan and the grant, is feasible. The Committee believes that an optional grant of about $5,500 will not cost more than the present loan and will benefit a significant number of eligible persons. Appropriate recommendations will be made in paragraph 107. These recommendations are made pursuant to clause 1 (b) of the terms of reference which ask the Committee to 'consider how . . . policies implied . . . in the estimates may be carried out more economically'.

14. The policy of assisting eligible persons to acquire residential dwellings can be carried out more effectively by letting them choose between a cash grant and a loan. This conclusion has been reached after careful and comprehensive evaluation of the programs. It is true that some of the calculations are of necessity based on broad judgments. But what the Parliament should not lose sight of is that the optional cash grant **provides the opportunity for converting significant administration costs into benefits for recipients and advantages for taxpayers.** It must then follow that such a proposal would make public sector spending more effective and productive.

15. The second objective of this Report is to find out whether DSHS is being administered economically and efficiently.

16. Since salaries and associated payments constitute a large portion of the administrative costs of DSHS the Committee has concentrated its examination on the efficient use of personnel resources. There are over 120 staff employed in the processing of new applications. There are also some objective measures of work performance e.g. standard times and man-days taken to process an application. On the basis of interstate comparisons the Committee has concluded that there is a case for the numbers of staff used in processing new applications to be reduced by 14. An appropriate recommendation has been made.

17. Another area of major concern has been the payment of about $1.6m to the Australian Postal Commission (APC) which provides the service of collecting instalments from the borrowers and forwarding these collections to the State offices of the Corporation. The Committee commenced a detailed investigation on whether this is the most effective and efficient way of collecting repayments from borrowers. It has examined a number of alternatives. In the process it has found that all these alternatives could be more efficient than the present APC system. There is the strong possibility of cost savings ranging from $0.25m to $1m a year. But since this work requires detailed investigations which are not appropriate for a parliamentary committee the Committee has concluded that a cost-effectiveness analysis should be conducted by the Department of Veterans' Affairs (Veterans' Affairs), the Department of Finance (Finance) and the Public Service Board.

18. The Committee is both satisfied and pleased that Veterans' Affairs and the Corporation are taking the necessary steps to improve efficiency. The Committee's interest, however, is in the establishment of a process or mechanism by which parliamentary oversight and scrutiny can be continued. There are two ways of doing this. The first is for the Auditor-General to review the efficiency of DSHS. The Committee has made a suggestion to this effect. It is necessary for this work to be done because there are many areas of administration which are in the process of being reviewed.

The Committee's Report would also be relevant. It is also necessary for the annual reports of the Defence Service Homes Corporation to contain relevant information. The Committee believes that information such as unit costs for processing applications on a State by State basis, should be provided to the Parliament.

19. All these recommendations have been made pursuant to clause 1 (b) of the *Committee's terms of reference. The Committee places on record its appreciation of* the co-operation given to it by departments and other organisations. In particular it records its appreciation of the co-operation and spontaneity of the Department of Veterans' Affairs and the Defence Service Homes Corporation.

20. The Report has been the work of the Sub-committee. The members of the Sub-committee in the 31st Parliament were the Hon. K. M. Cairns (Chairman), the Hon. F. E. Stewart, Mr K. J. Aldred, Mr J. J. Brown and Dr H. R. Edwards. The Committee also records its appreciation of the assistance given by the staff. The staff who assisted in this inquiry were Mr M. E. Aldons, Clerk to the Committee, Mr C. Walsh, General Adviser, Senior Lecturer in Economics, Monash University, Mr K. Newbold, seconded from the Auditor-General's Office and Mr M. Ives, seconded from the Department of Finance.

CHAPTER II
THE NATURE AND OPERATION OF THE SCHEME

History

21. The Defence Service Homes Scheme, known as the War Service Homes Scheme until 1973, came into operation in March 1919. At that time it was part of a system of repatriation measures 'to satisfactorily secure the reinstatement to civil life of members of the Australian Imperial Force'.[2]

22. Since then the eligibility provisions have been widened to cover those who served in World War II, other campaigns (e.g. the Korean War) and other categories of persons as well. In 1973 a fundamental change took place when servicemen who served a regular or national service qualifying period of 3 years became eligible for the receipt of DSHS benefits. In the last Budget the qualifying period for servicemen was extended from three years to six years (Exhibit 36 p. 356).

23. The policy objectives of the Scheme have also changed over the years. At some point in time the repatriation objective gave way to the concept of a reward for war service. Since 1973 serving members of the armed forces have become eligible for the benefits of DSHS as a means of attracting and retaining these persons to the Services and for compensating them for housing-related disabilities. The current program objectives will be described in detail in Chapter III. It has been said that the 'Defence Service Homes Scheme assists . . . . (eligible persons) . . . . to acquire a home'.[3]

Housing and Related Assistance

24. Assistance has been and is still given by means of a housing loan. Initially returned servicemen received a housing loan which was more or less sufficient to purchase a house and paid interest at a rate slightly less than the long term housing interest rate that prevailed at the time.[4] In recent times the size of the loan has fallen below the cost of purchasing or building a home and now represents probably less than 50% of the cost of a standard three bedroom house. However, in recent times, eligible persons have benefited from the fact that the interest rate on DSHS loans has been significantly below long-term interest rates.

25. Eligible persons can borrow up to a maximum of $15,000 under DSHS. The first $12,000 is repayable over 32 years with interest at 3.75% and the additional $3,000 is also repayable over 32 years but the interest rate is 7.25%. Thus anyone borrowing $15,000 would pay interest at about 4.5% on average. Loans are made available on first mortgage security.

26. Such assistance is given to eligible persons so that they can either (a) build their own houses; (b) purchase land with the intention of building; (c) purchase a

2. Senate *Debates* 12 December 1918, Second Reading, War Service Homes Bill 1918, p. 9111.

3. Australian Housing Corporation. Defence Service Homes Scheme, Its Nature, History and Operations, Australian Government Publishing Service (Canberra 1976) p. 1.

4. Senate *Debates* p. 9113.

dwelling; (d) complete the building of a partially erected house; or (e) enlarge an existing dwelling. Purchase of a dwelling is the most commonly sought type of assistance while assistance for enlargements to existing properties is becoming more prevalent.

27. Generally speaking there is a waiting period before a DSHS loan can be obtained to purchase an existing property (new or previously occupied home) or to pay for a house that is being built for an eligible person. The waiting period is eleven months, which commences from the date of lodgment of an application and has been in existence since 1 August 1975.

28. Once a person's eligibility for a loan is established and the Corporation is satisfied that the property is a suitable security for a DSHS loan, the applicant may be allowed to complete the purchase of a home with temporary or bridging finance. Then when the loan becomes available it is used to discharge this temporary finance. In 1976-77 over 70% of those who received loans obtained temporary finance. Information provided to the Committee shows that banks were the most popular source of this finance. They now charge interest at rates ranging from 10% to 12%. While there is no information on the period for which bridging finance is required it is reasonable to assume that the period is about eleven months. Since this finance is a straight-out payment of interest, it can be concluded that the waiting period represents a cost to applicants of about $1,500 on average.

29. While assistance is given usually to acquire a house on a single occasion only, in special circumstances it is given a second time. When this second assistance, as it is called, is given it is usually limited to the balance of the loan when it was discharged. In other words the Corporation re-lends this balance, repayable over the remaining period of the first loan for the purchase of a home. There is another situation in which second assistance is given, namely when the applicant has a further qualifying period e.g. a World War II person who is a member of the Services. This person can sell his DSHS acquired home and later, on the basis of his additional qualifying period, apply for a second loan.

30. Eligible persons can also obtain additional assistance loans though the conditions are restrictive. Broadly speaking such assistance is for essential sleeping accommodation and/or the initial installation of basic utility services. The amount of the additional loan may not exceed the difference between the maximum loan permitted under the Act and the amount of the original advance plus any previous additional loans. For example, if a person borrowed $9,000 in 1971 (the then maximum) he could borrow a further $6,000 today for essential sleeping accommodation. The interest charged on these loans is 7.25%. The granting of additional loans results from the *open-ended* nature of the Scheme. After a person becomes eligible there is no time limit within which he has to apply for assistance under DSHS. Nor, as the above example shows, is the amount of assistance limited to the maximum size of loan when the eligible person makes his first application.

31. Some eligible persons can receive benefits which are related to what has been called the 'implied objective' of the Scheme—the preservation of a person's possession of a Defence Service home. There is a scheme for female dependents (Widows Relief—section 29AA of the Act) which permits a reduction in the instalments of widows where in the opinion of the Minister payment of the full instalment would cause hardship. The relief granted continues to be a charge on the property. The purpose of the Widows Relief Scheme is to ensure that the female dependent will continue to have occupancy of the home for her lifetime. Similarly there is provision whereby the Minister can give relief for persons who pay the higher interest rate of 7.25% for amounts in excess of $12,000, on the grounds that the amount of the repayment would cause hardship.

The Insurance Scheme

32. Since its inception in 1919 the Defence Service Homes Act has made provision for a Defence Service Homes Insurance Scheme. In 1947 the legislation was amended to enable persons who had discharged their liabilities to continue to insure their homes under the Act on a voluntary basis. Persons who are repaying a DSHS loan are required by the legislation to insure with the Corporation. The Insurance Scheme is a co-operative scheme financed by premiums which are paid into the Defence Service Homes Insurance Trust Account. All claims and administration costs are debited to this account. Since its inception the Insurance Scheme has been entirely self-supporting.

33. Unlike other insurers the Corporation is responsible under the Act for determining the amount of insurance cover. In order to ensure that the amount of insurance is sufficient to restore insured dwellings, the amount of cover is now revised annually by a formula which reflects current costs of construction. Recipients can take out additional insurance with another insurer. The Corporation's premiums are generally lower than those of other insurers.

Administration

34. The Defence Service Homes Corporation has offices in each of the State capitals, in the Australian Capital Territory and regional offices in Newcastle, Wollongong, Albury, Ballarat and Townsville.

35. As of 31 July 1977 the following positions and staff (actual numbers) were located in the central and State offices of the Corporation:

	Positions	*Staff*
Central Office	69	56
New South Wales	304	295
Victoria	268	246
Queensland	150	144
South Australia	105	91
Western Australia	104	97
Tasmania	32	26
Australian Capital Territory	14	12
	1 046	967

Source: Ev. p. 24.

36. Staff in the State offices can be classified according to major organisational groupings which are Housing Assistance, Loans Administration and Insurance, Estate Development, Personnel and Services, and Finance. The Housing Assistance Group processes applications for loans, ensures that the security required to cover the loan is adequate and maintains security documents. There are 195 positions in this group. The Loans Administration and Insurance Group collects loan repayments, manages securities—this includes, for example, recovery of arrears and operation of the Widows Relief Scheme—and provides insurance cover and determines claims. There are 130 positions in this group. Staff in the Estate Development Group assist to acquire and develop areas of land for the erection of homes for eligible persons. There are 126 positions in this group. This activity is being phased out.[5] Some of the staff in the other groups either assist directly the staff in these basic groups (e.g. registry, loan maintenance) or indirectly support the staff in the basic groups. Of the present establishment of 1046 positions, over 65% are required for the basic functions. Further details of the establishment are provided at Appendix 2.

37. From almost the inception of the Scheme borrowers could pay their monthly instalments (loan, insurance) at any post office in Australia. For providing this service the Australian Postal Commission (the APC) charges a fee of 2.31% or 2.31 cents in the dollar for every transaction. For example if a person repays $73.82 a month (the minimum repayment for a $15,000 loan over 32 years) the monthly charge by the APC would be $1.71. About 80% of collections are handled through the post offices and it is estimated that the Corporation will pay the APC about $1.6m in 1977-78 for the services it provides.

Costs

38. The Defence Service Homes Scheme is one which spends and receives money; there is both income and expenditure. Most of the administrative expenditure is paid out of votes under the Department of Veterans' Affairs. In 1977-78 estimated expenditure under these votes totalled close to $14m. This amount does not include $2.4m for superannuation and office accommodation which are in other parts of the Budget documents. It should be noted that some of these costs are recovered from charges. Costs of insurance work are recovered from the insurance premiums charged. Some of the costs of processing applications will be recovered by application fees—$75 for an initial application and $50 for an additional loan application—which are to be introduced in 1977-78.

39. A second group of costs is for the Defence Service Homes programs. While $94.5m will be available for these programs—mostly housing loans—in 1977-78, only $22m will be provided through the Budget. The balance, represented mainly by repayments of principal by borrowers, will be retained in the Defence Service Homes Trust Account.

40. The major source of income for the Corporation, other than the repayment of principal, is the receipt of interest payable by borrowers. These amounts are paid into the Consolidated Revenue Fund. The Corporation also receives an Interest Subsidy through the Budget—$24.9m in 1977-78—and pays this too into the Consolidated Revenue Fund. This is said to reflect the difference between interest on capital payable to the Commonwealth and interest earned by the Corporation.

Structure of Report

41. It is very difficult, if it is at all possible, to find out the true and full costs of DSHS from the Budget documents. This lack of information does not assist parliamentary scrutiny. Not only is the program large, with total expenditure in the vicinity of $130m, but it is also a program that will continue in perpetuity because serving members of the armed forces are now eligible for DSHS benefits. There will therefore

5. Statements attached to the Treasurer's Budget Speech 1977-78 Budget Paper No. 1 p. 76.

be a continuous call on resources for this Scheme. In these circumstances the Committee considers it necessary to find out whether there are more effective ways of delivering the program objectives; and whether the programs are being administered economically and efficiently. The first step must therefore be an examination of the objectives of DSHS.

CHAPTER III
THE PROGRAM OBJECTIVES

Introduction

42. In any evaluation of programs it should be standard practice for the inquiring authority—in this instance the Committee—to examine the relationship between the programs and their objectives. For this work to be effective it is necessary to get as clear an idea as possible of the purposes of the programs. A clear statement of objectives allows their measurement or assessment and thus facilitates legislative oversight. And sometimes such a statement can prompt the examination of more effective and/or more efficient alternative ways of achieving the objectives.[6]

43. The long title of the Defence Service Homes Act 1918 says it is an Act '. . . to make provision for Homes for Australian Soldiers and Female Dependents of Australian Soldiers'. Provision is now pursued by giving eligible persons housing loans which, although they do not go anywhere near to covering the full costs of a standard three bedroom house, nevertheless give these persons significant concessions because of the low interest rate charged.

44. At present those who borrow under DSHS pay an effective interest rate of about 4.5% on a $15,000 loan, the maximum period for repayment being 32 years. The monthly repayment, based on these maximums is $73.82. The long-term bond rate (LTBR), a rate which is relevant because it represents, as it were, the cost to the government of borrowing the money to make loans available to eligible persons, is of the order of 9.1%. If the maximum DSHS loan (over 32 years) attracted this interest rate monthly repayments would be $120.37. In other words, the equivalent cash value of the interest concession is $46.55 ($120.37–$73.82) a month over the 32 year life of the loan.[7]

45. This cash value can be expressed in another way. If one retains the monthly repayment of $73.82 and requires the recipient to pay interest at 9.1% the amount he would be able to borrow (over 32 years) is $9200. So the person borrowing from DSHS receives a concession which is equivalent to giving him $5800 at the point in time he buys his house and requiring him to borrow the rest—the other $9200—from the government or a lending institution at 9.1% over 32 years.

46. Under the present arrangements the DSHS interest rate is fixed by legislation while other rates, including the LTBR, are subject to change. This can result in significant changes in the real value of the concession and its cost to the taxpayer. A good example of these changes is provided by recent experience when the effective DSHS rate remained constant at 4.5% while the LTBR first increased from rates of about 8.5% (late 1974) up to a peak of 10.5% and then fell to 9.25% and then to 9.1%.

---

6. See also Australia. Parliament, *Accommodation for Married Servicemen: Report from the House of Representatives Standing Committee on Expenditure* (Chairman: R. V. Garland), Parl. Paper 99, 1977 (Canberra, 1977) p. 23

7. The value of the concession would be greater if first mortgage rates charged by building societies are used rather than LTBR's. See Appendix 4 for further details.

The effect of these movements in the LTBR was at first to increase the size of the concession eligible persons receive but then to reduce its size in more recent times. To explain, if we use the LTBR's in this paragraph and calculate the size of the lump-sum concession in the same way as it was calculated in paragraph 45, it can be shown that the size of the concession rose from $5400 when the LTBR was 8.5% to $6970 when the LTBR was 10.5% and then fell to $5800 when the LTBR fell to 9.1%.

The Program Objectives

47. There are many reasons, advanced mostly by government, for giving eligible persons housing loans. One of the reasons is 'the concept of a reward for service in time of war' (Ev. p. 61). The most recent public statement on the objectives of the DSHS was contained in the Second Reading Speech of the Defence Service Homes Bill 1973 (Ev. p. 65).

48. Based on this information, the objectives of the DSHS can be said to be to assist eligible persons to acquire a house in order to:

(a) reward those who served their country in times of war;

(b) attract and retain regular servicemen in peacetime;

(c) recognise the significant contribution made to national defence by servicemen who undertake full-time service of a substantial duration; and

(d) compensate regular servicemen for considerable disadvantages relative to other members of the community in acquiring a permanent home.[8]

49. The Department also referred to an 'implied objective', namely the preservation of a person's possession of a Defence Service home for as long as he wishes to retain it, provided he complies with the conditions on which assistance is granted (Ev. p. 23).

Relationship between the Objectives and the Housing Loan

50. Having obtained a reasonably clear statement of objectives, it is now possible to examine the relationship between the program—the housing loan—and these objectives.

51. The reward for service objective has replaced the original repatriation objective (see paragraph 21) which is no longer tenable. 'It is difficult to relate the position in the 1970's of a Defence Service homes loan to a 1914-18 or a 1939-45 veteran to the concept of reinstatement in civilian life.'[9] The Committee does not take issue with the validity of the reward for service objective. What the Committee finds difficult to see is the relationship between rewarding those who served their country in times of war and the implied view that this reward **must** be only in the form of a housing loan which is by definition not available to those who already own a house. This restriction discriminates against those who served in wars and own a house. They cannot receive the reward unless they sell their house and buy another. Rewarding war veterans with housing loans also discriminates against those who wish to hold their wealth in assets other than houses. In fact some could argue that the reward for service objective could

8. Evidence page 61 and Australia. House of Representatives, *Debates* 1973, Second Reading Speech, Defence Service Homes Bill 1973, 7 March 1973, p. 298.

9. Australia. Parliament, *Review of the Continuing Expenditure Policies of the Previous Government (June 1973)*, Parl. Paper 143, 1973 (Canberra 1973) p. 90.

be served more effectively, with less distortion of individual preferences and less administrative cost, by giving war veterans a cash grant to use as they see fit.

52. The second objective of the DSHS is to attract and retain servicemen in peacetime while the third is to reward them for serving in the armed forces. It is hard to see this third objective as anything except another way of expressing the need to make service life and conditions sufficiently attractive to ensure adequate engagement and re-engagement rates. Besides DSHS loans there are many policies and programs which are related, directly or indirectly, to attracting persons into and retaining them in the Services. These include:

(a) principles and concepts of pay fixation which are compatible with those applying to the general community;

(b) retirement benefits;

(c) a Re-engagement Bounty to eligible members prepared to undertake a further three years of service;

(d) compensation for the general disabilities of service life with a Service Allowance of $950 a year;

(e) rents below market levels.[10]

53. There can be little doubt that the housing loan at concessional interest rates must represent an added attraction of service life. But the loan has a number of peculiar features. First it appears to make service life most attractive to those who attach highest value to home ownership but this does not necessarily have anything to do with attracting suitable persons to the Services. Second the DSHS is not a useful device for **changing** attraction and retention rates when this is desired. It appears that a strong case could be made for excluding the DSHS loan from the package that is used to attract servicemen while simultaneously increasing the size and frequency of the Re-engagement Bonus, in an effort to maintain or increase the size of the armed forces. In any case there seems no particular reason why this housing-related benefit should be in the form of a housing loan.

54. The Committee did not discuss the relevance of the housing loan to the total attraction and retention program with the Department of Defence (Defence). In the inquiry into accommodation for married servicemen, however, when referring to the various programs that are intended to attract and retain servicemen, Defence told the Committee that there is a relationship between the elements and that subjective judgements are required to determine relative efficacy.[11]

55. Since significant sums of money are spent either directly or indirectly on the attraction and retention objectives it is very necessary to assess the relative effectiveness of the various programs in use. Such measures would be better than purely subjective judgements. It is emphasised that they would be an aid to, not a substitute for, judgement. In the opinion of the Committee such work requires a fresh approach to the difficult problem of measuring effectiveness, and should be undertaken outside the Public Service. It is work appropriate for an economist. *The Committee recommends that the Government appoint a suitably qualified person from outside the Public Service to assess the relative effectiveness of programs designed to attract persons into and retain them in the Services and to devise methods to enable continuing measurement or assessment of the effectiveness of these programs.*

10. Garland Report, p. 19.

11. Accommodation for Married Servicemen, evidence of 8 October 1976 (pp. 80 and 82).

56. The fourth objective of DSHS is to compensate regular servicemen for the considerable disadvantages they face in acquiring a permanent home when compared with other members of the community. The Committee was told that one impediment to servicemen buying a house was the fact that they are subject to movement from one location to another. (Ev. p. 62).

57. The Chairman of the Committee pursued this matter at the public hearing on 6 September 1977. He asked the Department to explain what it understands the policy objectives of DSHS to be and to concentrate its comment on the housing-related disability issue. The Chairman asked a series of questions about this disability and canvassed possible replies (Ev. pp. 111 and 112). After quoting an extract from the Second Reading Speech on the *Defence Service Homes Bill* 1973 the Department said that it was '. . . unable to advise the Committee on the extent, if any, to which the particular disadvantages attributed to regular servicemen were identified and measured before the decision . . . was taken.' The Department added that '. . . the adoption of objectives and policies is essentially a matter for the Government of the day.' (Exhibit 15, p. 69).

58. It is perhaps worth observing that this fourth objective is the only one which has a distinct reference to housing—the only one which even hints at some form of housing-related benefit. However, even here there is no reason why servicemen could not be compensated simply with a cash payment: indeed some might distinctly prefer that arrangement which would leave them free to use the money as they wish.

59. It is important that the point be clearly recognised that tying this program of benefits explicitly to housing involves **another** objective, essentially independent of the ones usually stated (reward and compensation), directed at encouraging home ownership among servicemen and ex-servicemen. The practical consequences are to deny the benefit to those who prefer not to hold their wealth in houses and to those who already own a house and prefer not to move from it. If the intention of promoting home ownership remains an integral objective of the programs, this objective should be stated categorically.

60. The foregoing shows quite clearly the need for the program objectives to be re-examined and re-stated. The Parliament has the right to be informed. *The Committee recommends that the Minister for Veterans' Affairs define and explain the objectives of the Defence Service Homes Scheme to the Parliament.*

61. What is true of the basic scheme is obviously at least as true of certain additional features that have been built into it over time—particularly (a) additional assistance, (b) the 'implied objective' of keeping a person in a DSHS home once acquired and (c) the award of second assistance. Each of these represents an additional benefit available only to *some* of those who are eligible for the basic DSHS loan: are they justified in terms of the basic objectives of the scheme as already discussed, or do they imply other objectives not commonly revealed in parliamentary or public discussion of the program but only capable of being inferred by careful observation of the scheme in operation?

62. For example, additional assistance is given for essential additional sleeping accommodation and the initial installation of basic utility services. While the Committee recognises that these extra loans might be seen as part of the reward to persons for war-time service, or as compensation for housing-related disabilities, they also imply a welfare-type objective. Perhaps such an objective is appropriate, but it should be known, its basis explained and be strictly administered.

63. Similarly the 'implied objective' of the preservation of a person's ownership of a DSHS financed house should be made explicit. While welfare objectives like those implied in Widows Relief might be endorsed it is not enough that they be left to be inferred from the legislation. Second assistance may be easy to rationalise, but its objectives should be carefully articulated, with clear guidelines based on these objectives, so that equitable treatment is assured to all applicants.

64. What these categories of additional benefit clearly emphasise is, as pointed out earlier, the essentially *open-ended* nature of the scheme, with additional objectives and related categories of benefit capable of being created seemingly at will, and reflecting a degree of paternalism that might not be accepted in other areas of government involvement. The additional objectives might be supportable, but all of this has a cost either directly to taxpayers who meet the outlays, or to other beneficiaries whose waiting time cannot be reduced, or whose basic loans cannot be increased. *These additional features could be explained in the Ministerial statement recommended in paragraph 60.*

65. This examination of the program objectives also shows quite clearly that the long title of the Act does not reflect the purpose of the legislation. An updating is required. The Committee will make an appropriate recommendation at the end of Chapter IV.

Conclusion

66. The Committee is of the opinion that there is no necessary relationship between the programs and objectives of DSHS but also believes this is a matter for further examination by the Executive. It is apparent, however, that none of the objectives of DSHS require that a housing loan necessarily be the form in which the benefit should be made available. Whichever of the objectives one regards as valid, and assuming that housing-related benefits are regarded as an integral element of the Scheme, it is possible that cash grants could be just as effective and sometimes more so than loans at concessional interest rates.

67. It is to the examination of this important and interesting alternative that the Committee now turns its attention.

CHAPTER IV

ALTERNATIVE WAYS TO ACHIEVE THE PROGRAM OBJECTIVES

Introduction

68. In this chapter the Committee will consider the feasibility of introducing cash grants as an alternative to housing loans. It is recognised that there are other alternatives as well. For example a second mortgage option, of allowing eligible persons to secure their loans by a second rather than first mortgage, would make the Scheme more effective. These and other alternatives are considered in Appendix 3.

69. A crucial aspect of the Committee's activities in relation to schemes like DSHS is to examine, among other things, whether the program involved could be made more *effective*—that is to say, whether the present benefits could be achieved at lower cost to the taxpayer, or greater benefits secured at no extra cost, by a change in the way in which governments' objectives are pursued.

70. The more sensitive policy questions of whether the present level and distribution of benefits, and/or level of taxpayer costs is "appropriate" does not lie within the range of issues on which the Committee sees itself currently offering advice. Nonetheless, having carefully considered the stated objectives of the Scheme in the previous chapter, it might be both interesting and useful to begin here by considering what sort of scheme would emerge and what sort of principles would be used to determine the level of benefits, if the whole program were created anew. The Committee accepts existing commitments. It seeks only to present initially the advantages of an alternative approach in the clearest possible terms so that it can later examine how as many as possible of these advantages might be secured **within** the context of existing commitments.

The Non-Optional (Exclusive) Cash Grant

71. From the previous chapter it seems clear that the program awards eligible persons some form of housing-related benefit as a means of seeking fulfilment of three distinguishable objectives—rewarding war service; attracting and retaining full-time servicemen; and compensating for housing-related disabilities suffered by servicemen as a result of essential service postings policies. It is our firm belief that the best way of meeting this collection of objectives would be through the provision of cash grants which, given the ostensible housing objectives of the scheme could be awarded to eligible persons in much the same way as Home Savings Grants are now provided to first-home buyers.

72. Clearly the objectives of the Scheme imply that in whatever form the concession is given, it should in principle be calculated as an amount sufficient to cover the costs of the housing-related disadvantages suffered by servicemen plus any additional amount necessary to promote the attractiveness of service life, or an amount sufficient to adequately reward those who served in war zones. Indeed, the Committee could envisage the possibility of different sized grants being available for those who qualify through war service *vis-a-vis* those who qualify under the peace-time objectives. But it is clear that what the objectives support is a benefit of a certain money value calculated in a more-or-less rational way on the basis of the concepts of reward and compensation.

73. It is recognised that there would be many complexities in the calculation of such amounts which could be larger or smaller than the current value of the benefit implicit in the concessional interest rate for DSHS. A loan at concessional interest rates, as a means of providing that benefit, is open to question for at least 3 reasons.

74. First, and most obviously, the effective money value of the benefit given through a loan is subject to fluctuation as long-term interest rates fluctuate in the market, particularly if (as at present) the interest rate on the loan is fixed. It is hard to see that the objectives of the Scheme require that the value of the benefit in one period should be higher or lower than in another, and yet this is precisely what will be the case with a fixed interest loan. Of course, it could be argued that the interest rate on DSHS loans should be tied to long-term market interest rates (LTBR in particular). But this is merely a complicated way of doing what a cash grant would do in the first place (i.e. fix the money value of the benefit), and it would add to administrative costs rather than reduce them as a grant scheme would do.

75. This leads to the second major reason for favouring a cash grant: it would allow significant long-term reductions in administrative costs. The whole apparatus of loan applications, approvals, collection of repayments and management of securities could be replaced with something similar to the Home Savings Grant apparatus, and the resources thereby released employed elsewhere (for calculations of these savings see paragraph 81, and Appendix 5). This is a major long-term advantage of a grant arrangement which can be secured fully only by exclusive reliance on grants, though in any change-over that might now be contemplated the full savings would emerge only after all existing securities are discharged. Third, a grant would identify more clearly the size and nature of the benefit that taxpayers are supporting, so that parliamentary and public scrutiny of the program is facilitated.

76. There are other advantages that may weigh heavily with some people. For example, in the short to medium term, the grant would enable the same number of eligible persons to be provided with the benefit at a very significantly lower public sector outlay or larger number of persons could receive the benefit for the same outlay even ignoring the savings in administative costs. Whether or not these savings continue in the longer-term is an issue which depends on whether the grant would be larger or smaller than the benefit that would otherwise be offered through concessional interest rates. The grant would obviously also allow full portability which is, currently at least, not permitted to everyone under the loan scheme.

77. The net effect of all these observations is the emergence of a strong case in favour of grants in preference to loans at concessional interest rates as a means of pursuing the stated policy objectives. If the Committee were in the position of advising on the creation of DSHS there would be little doubt about supporting a carefully assessed grant as the means of awarding the benefit. However the Committee is not in this position. A particular size and distribution of benefits has been established, and its continuation anticipated; and decisions on maximum permissible budget outlays have been made. Any change now introduced would have to meet these pre-existing commitments as well as realise the advantages which would accrue from grants. The viability of a proposal to introduce grants instead of loans would depend on cash grants meeting most of the following five criteria:

(a) *if possible,* remove the disadvantage of the fluctuating concession which results from differential interest rates;

(b) not cost taxpayers more than the present loans with their concessional interest rates;

(c) lead to savings in administrative costs or, at a minimum, not result in increases in these costs;

(d) be more attractive or at least no less attractive than the existing loan from the viewpoint of most eligible persons;

(e) assuming that either criteria (a) to (d) or (b) to (d) have been met, not produce any side-effects which, on balance, adversely affect the viability of the grant.

78. Some of these criteria are inter-related. The size of the cash grant (b), could include some of the savings in administration costs (c), that result from its introduction, which in turn might then make an otherwise unattractive grant appealing to eligible persons. It should also be pointed out that application of the criteria, in particular the calculation of the size of the grant and the examination of whether any other effects adversely affect the viability of the cash grant proposal, require subjective judgements to be drawn from the evidence submitted to the Committee. The difficulties involved will be apparent from the succeeding paragraphs.

79. The cash grant, once its desired money value has been fixed, would eliminate the fluctuating nature of the concession, so that criterion (a) will be met. But what size the grant should be is not easily determined. Nevertheless it is likely that in the first instance the size of the grant would be based on the value of the concession. Then in later periods changes in the size of the grant could be linked, say, to a proportion of the cost of a standard three bedroom house.

80. Paragraphs 44 and 45 calculated, in a simplistic way, the monthly cash value of the interest concession and the lump sum value of this concession. Appendix 4 provides more detailed and refined calculations which permit the Committee to conclude that the cash grant equivalent to a $15,000 loan at concessional interest rates is between $4,500 and $5,000. Because an exclusive cash grant would lead in the long-term to the virtual elimination of current administrative costs, an allowance for administrative cost savings should be added to the cash grant figures.

81. A system of exclusive cash grants will lead to significant long-term savings in administrative costs of about $15m or $2,000 an application. The details of these calculations are provided in Appendix 5. While the figuring is not precise it is nevertheless indicative of the savings that can be realised. Even if grants were introduced overnight the Corporation would need to continue to administer existing loans (receive repayments, chase up arrears). It is therefore not appropriate to add the full $2,000 to the basic grant. The Committee considers a sum of $1,000 to be reasonable.[12] The maximum size of the exclusive cash grant that can be given thus ranges from $5,500 to $6,000. These sizes of grants meet criteria (b) and (c) of paragraph 77.

---

12. Even if this sum is overstated for early years it can be quite easily recouped in later years when administrative costs fall. It must be remembered that DSHS will continue in perpetuity.

82. It could be said that if future LTBR's are correctly anticipated when the size of the cash grant is set, then eligible persons may not be worse off in the long-term. Compared with the monthly repayments under a DSHS loan, a cash grant of say $6000 will result in higher monthly repayments in the early years and lower monthly repayments in later years. Of course some eligible people may not be prepared to take this risk. It is therefore necessary for the Committee now to apply criterion (d) of paragraph 77 to find out how eligible persons could be affected by the cash grant. The starting point of this exercise is to find out the proportion of eligible persons who rely exclusively on DSHS loans, the proportion that require second mortgages and so forth. This information is provided in Table 1.

Table 1

TOTAL BORROWINGS OF DSHS APPLICANTS

(1977 Calendar Year)

Total Borrowings[1]	*% of Settlements*[2]
Less than $11,000[3]	7
$11,000–$12,999	8
$13,000–$14,999	3
$15,000	45
Over $15,000[4]	37
	100[5]

Notes:
1. The size classifications up to and including $15,000 are pure DSHS loans.
2. Those who obtained DSHS loans.
3. Reflect second assistance.
4. Represents all cases where the Corporation has paid some of the estate development cost (section 18A) and/or where second mortgage finance has been taken by applicants.
5. 6154 settlements.

Source: Derived from Exhibit 29.

83. If the 45% in Table 1 who rely solely on DSHS now receive a $6,000 cash grant instead they would have to borrow $9,000 from a lending institution. If they borrow this amount from a savings bank their monthly repayments would not increase. However, if they borrow from building societies their repayments would increase, ranging from $81.65 to $90.85 a month. This can be compared with the amount of $73.82 they repay for the $15,000 DSHS loan.

84. It is possible that some of these eligible people would still prefer the cash grant. They might argue that they expect interest rates to fall in the future so that their monthly repayments would then fall as well; that the grant increases their equity in the property and that it is portable, i.e. unlike the loan the applicant does not have to return the grant to the Corporation and get another grant when he buys and sells. Other eligible persons, particularly those who are reaching retiring age and do not place as much emphasis on portability and the possibility of lower interest rates in the future, could see themselves disadvantaged by the exclusive cash grant.

85. But even those not convinced by other arguments may be persuaded by one other factor, namely that the cash grant would lead to savings that would result from the elimination of temporary or bridging finance. At present most applicants have to wait before they can get their DSHS loan. When applicants learn of the approval they usually obtain temporary finance, mostly from banks, presumably for 11 months (see paragraphs 27 and 28). Temporary finance is obtained by all applicants who obtain loans for the purchase of an existing dwelling and by all those who finance the construction of a home on the understanding that the loan will be available when the dwelling is completed. In 1976–77 these categories of loan settlements numbered over 70% of all settlements (Exhibit 29, p. 291). Interest charged is from 10% to 12% so that applicants pay about $1,500 for this finance, i.e. 11% for 11 months. In some instances it has been reported to be as high as $3,000.[13]

86. If one assumes for the moment that the cash grant will eliminate the waiting period—this assumption will be tested in the next paragraph—then the benefits from the elimination of temporary finance can be calculated. Thus the monthly repayment of $81.65 referred to in paragraph 83 would be reduced to about $68 a month when the savings in bridging finance are taken into consideration. Similarly the monthly repayment of $90.85 would fall to about $76 a month. Details of these and other calculations used in this chapter are at Appendix 5.

87. The attraction of the cash grant for persons whose total borrowings are $15,000 thus depends on the proposal eliminating the waiting period. The Committee considers that an exclusive grant of $6,000 will permit the Government to more than double the present number of persons who receive the DSHS benefit without increasing government expenditure. This figuring too is in Appendix 5. This ability to satisfy such an increase in demand should not result in the imposition of new waiting periods.

88. It can be shown that persons whose total borrowings are more than $15,000 (37% of 1977 settlements) would also benefit from the exclusive cash grant. At present these people borrow $15,000 from DSHS and the balance of their requirements from other lending institutions. Without doing too much arithmetic it can be shown that they would benefit when they cannot obtain second mortgage finance from banks or building societies, when second mortgage rates are higher than first mortgage rates or when the increased equity of the grant allows them to by-pass the high interest, short repayment periods of finance companies. Generally speaking, all these eligible persons would be better off under the grant scheme even without the temporary finance savings. When allowance is made for these savings a person whose total borrowings are $25,000 ($15,000 DSHS, balance commercial) and who has to depend on finance companies, would reduce his monthly repayments by over $50 if he received a $6,000 cash grant and borrowed the remainder from a building society on first mortgage.

89. So far the Committee has tested the feasibility of the exclusive cash grant against the criteria referred to in paragraph 77. The conclusion that can be drawn, by and large, is that the exclusive cash grant will remove the disadvantage of the fluctuating interest rate concession; should not cost more than the present loan at concessional interest rates; will lead to significant long-term savings in administrative costs and will benefit most eligible persons. What has to be done now is to examine whether the grant will produce any effects, which despite its apparent attractiveness, affect its viability adversely.

90. Departments told the Committee of some of the effects of the grant which, presumably in their opinion, could affect the viability of the proposal. First, it was said that while there could be short-term budgetary savings there could be pressure to use the savings to reduce the waiting list, thereby reducing or eliminating the savings

13. The Returned Services League of Australia, *61st Annual Report of the National Executive* (Canberra 1976) p. 25.

(Exhibit 20, p. 88). Short-term savings have never been an objective of the proposal, though it should be pointed out that such savings—of the order of $20m—can accrue in 1978-79 *if the grant proposal is accepted. Since the grant should enable more persons to obtain the DSHS benefit from a given sum of money, it is clear that the grant would make the program *more effective* in achieving its objectives.

91. Second, it has been said that other categories of home buyers could be disadvantaged to some extent if DSHS beneficiaries receive a cash grant because the latter would now have to obtain a portion of their needs (e.g. $15,000-$6,000) from the market. A feature of markets for home loans at the lower end of the private market interest rate spectrum is that demand usually exceeds supply and necessitates some kind of rationing. The argument then is that if a significant number of DSHS beneficiaries seek the greater part of their borrowings from these markets, others might be forced onto higher interest rate markets or out of the housing market altogether (Exhibit 20, p. 90).

92. This argument is less than marginal. The additional market borrowings that the grant creates would be a small portion (less than 2.5%) of the total of housing finance for owner occupation in the year 1976-77 (March to March quarters).[14]

93. It has been implied that the majority of eligible persons would not have sufficient market knowledge to work out which financing arrangement was most beneficial to them (Exhibit 11, p. 56). At present, close to 40% of applicants borrow more than the DSHS maximum which means that a significant number obtain additional finance from lending institutions. These numbers already have to work out which financial arrangements suit them best. The Corporation does not advise applicants on appropriate sources of finance; it simply refers them to lending institutions. Given that members of the general community have to work out which financing arrangement is most beneficial, the Committee fails to see why eligible persons do not have the capacity to make similar decisions. Such persons could consult their bank managers. Housing finance is not the only commodity consumers purchase from the market and previous experience in shopping around for other goods or services would be of obvious relevance.

94. Fourth, it was also said that although cash grants would make more apparent the value of the concessions and thus facilitate parliamentary and public scrutiny, the value of the concessions could also lead to pressures for similar and comparable concessions under other government housing schemes (Exhibit 20, p. 89). If these other schemes have features that are similar to DSHS, and if cash grants benefit both recipients and taxpayers, there would then be a case for their introduction in other areas as well. But grants would not benefit all other categories of persons who receive housing assistance from the Commonwealth. The Commonwealth advances funds at concessional interest rates to the States for home purchase under the welfare housing agreement. The States decide eligibility for welfare housing. Persons who receive assistance for home purchase are those who do not satisfy the criteria of savings banks or other lending institutions. It is probable, then, that such persons would see themselves being disadvantaged if they were to receive grants rather than loans.

95. The Committee was also told that those who received a cash grant would not receive the other benefits DSHS borrowers receive such as Widows Relief (Ev.

14. Derived from Housing Finance for Owner Occupation, March 1977, March 1977, Australian Bureau of Statistics, Ref. No. 5.56, 20 May 1977.

p. 208). At present the relief granted continues to be a charge against the property. Under the loans scheme the relief given results in a temporary loss of revenue. With cash grants the Commonwealth can lend, say, the same amount as the revenue foregone and secure this money with a second (or third) mortgage. Beneficiaries would not be disadvantaged and neither would the Commonwealth. Any administrative costs of operating this relief scheme would be small.

96. The matters discussed in paragraphs 90 to 95 were raised by departments when they commented on the optional cash grant proposal. The Committee did not discuss the non-optional or exclusive cash grant proposal but recognises that these matters are relevant to this latter proposal as well. There are, however, two other matters which are related only to the optional cash grant. These are discussed in paragraphs 104 and 105.

97. Examination of the feasibility of the non-optional or exclusive cash grant against the criteria established in paragraph 77 shows that the exclusive grant has a lot to offer. It is recognised, however, that the Committee is examining a loans scheme which commenced almost 60 years ago. The exclusive grant has a few features which concern the Committee. First, there are some eligible persons who could be disadvantaged by an exclusive cash grant. Those who now receive small loans under the additional assistance provisions would get a grant which is obviously smaller than the loan. These persons would then have to borrow the balance from the market. The Committee believes that such persons would be disadvantaged because their monthly repayments would be greater under a cash grant scheme. There are also persons who get the Corporation to undertake the supervision of the construction of a dwelling. The Corporation makes progress payments to the builder. There is no waiting period for this category of persons, they do not therefore obtain bridging finance and would be disadvantaged under a system of cash grants. These problems show how complicated DSHS has become over the years, the extent of the departure of programs from objectives and the costly consequences of the failure to modernise.

98. There is also the uncertainty of whether some eligible people who do not satisfy market criteria will be disadvantaged, the lack of certainty that despite a very comprehensive investigation all the relevant factors may not have been examined and the belief that a fundamental change such as this type should be introduced gradually. In addition there is the question of freedom of choice. Taking all these factors into consideration the Committee concludes that while the exclusive cash grant has a lot to offer its introduction at this stage would be premature.

The Optional Cash Grant

99. In examining the feasibility of the optional cash grant (i.e. allowing eligible persons to choose between the grant and the loan) the Committee does not propose to repeat all the facts and comments presented in the preceding paragraphs. The retention of the option to obtain a loan means that the disadvantage of the fluctuating interest rate concession is only partly eliminated.

100. Appendix 4 explains how the size of the grant is determined. In paragraph 80 the amount of the basic grant was stated to be between \$4,500 and \$5,000. While the optional grant will not lead necessarily to the virtual elimination of administration costs, it will nevertheless result in some cost savings. These are estimated conservatively at \$500 an application so we are talking of a grant between \$5,000 and \$5,500.

101. The next question examined is whether eligible persons would be affected adversely by the optional cash grant. Here too the attractiveness of the grant for those who would otherwise rely solely on the DSHS loan (the 45% in Table 1) rests on the savings of the cost of bridging finance that would result from the elimination of the waiting period. Those who borrow from savings banks or from some building societies would be better off. Others who borrow from other building societies would not be better off and would have to balance the increase in monthly repayments against the advantages of the increase in equity and portability that emanate from receiving a cash grant rather than a loan.

102. It can also be shown that an optional grant would benefit those whose total borrowings are more than $15,000—the 37% of 1977 settlements in Table 1. At present these persons borrow $15,000 from DSHS and the balance from a lending institution, at second mortgage rates. A cash grant would enable them to borrow at first mortgage rates which are usually lower than those charged under second mortgage so that this category of persons would benefit. If the grant enables some to avoid the high interest, short repayment periods of finance companies there would be substantial benefits.

103. Because the optional cash grant should benefit many recipients its introduction could lead to the elimination of the waiting period and significant long-term savings in administrative costs. The grant thus meets criteria (b) to (d) of paragraph 77.

104. Most of the matters relating to criterion (e)—whether the grant will produce adverse effects—were discussed in paragraphs 90 to 95. There are two additional matters that need to be considered. It was said the cash grants (optional grants) inhibit possible decisions by governments to increase interest rates for DSHS loans in the future (Exhibit 13, p. 61). Presumably what this means is that since the size of the grant is based on the current DSHS interest rate, any increase in that rate should be accompanied by a reduction in the size of the cash grant. Since it is probable that governments will increase these rates only when the size of the loan is increased, it then follows that it is also possible that the size of the grant would be increased as well. In these circumstances the Committee does not accept that cash grants make it difficult for governments to increase DSHS interest rates.

105. Finally it was stated that since the grant is portable it would be difficult to resist making loans also portable. There is no reason why, under an optional scheme which allows the eligible persons to choose between loans and grants, portability should be attached to loans. In any case the Committee does not see anything wrong with portability provided that the outstanding balance of the loan does not increase. In fact such portability was recommended for serving members of the armed forces because they are posted.[15]

106. To sum up. Since the optional cash grant meets criteria (b) to (d) in paragraph 77 the Committee concludes that eligible persons should be allowed to choose between a cash grant and a housing loan. Appropriate recommendations will be made. The Committee will also recommend that there be no application fee for the cash grant and that an explanatory pamphlet be prepared on the options now available to eligible persons. This document would be similar to the pamphlet on the

15. Garland Report, recommendation 11.

Home Savings Grant Scheme. The pamphlet should be available for distribution from the States offices of the Defence Service Homes Corporation.

107. Clause 1 (b) of its terms of reference asks the Committee to 'consider how . . . policies implied . . . in the estimates may be carried out more economically'. Pursuant to this clause, *the Committee recommends that:*

(a) the long title of the Defence Service Homes Act 1918 be amended to read as follows: An Act to assist eligible persons to acquire a residential dwelling;

(b) the Defence Service Homes Act 1918 be amended to allow eligible persons to choose to receive either a housing loan or a cash grant which would also be used to acquire a residential dwelling;

(c) the size of the grant be determined in the legislation and reviewed periodically;

(d) there be no application fee for those who receive grants;

(e) the Government prepare for distribution a pamphlet on the new options available to eligible persons.

108. The Committee has reached these conclusions after a most careful and comprehensive evaluation of the DSHS program. Some of the figuring is based on broad judgments and this could lead some to question the validity of the conclusions. What should be emphasized and what should not be lost sight of, however, is that **the optional grant provides governments and the Parliament with the opportunity of converting significant administration costs into benefits for recipients and savings for taxpayers.** It is surely axiomatic that such an opportunity, when accepted, would make public sector spending more productive and therefore result in a better allocation of resources.

109. Before leaving this subject, one further issue must be raised. When grants are given, an expenditure item representing fully the direct benefit to recipients and paid for by taxpayers will appear in the Appropriation Bills. But what of the cost to taxpayers of the concession given through low-interest loans? An item purporting to represent the cost of that concession does now appear in Appropriation Bill No. 1 (Division 693.3.01: Interest Subsidy), which is calculated as the difference between the interest which the Corporation receives on DSHS loans and the interest which the Commonwealth charges the Corporation on capital it has advanced to it over the years.

110. The Committee expressed interest in this matter, especially in relation to the fact that the Corporation pays interest calculated on the basis of long-term bond rates which applied when advances were originally made rather than on the basis of the current long-term bond rate. It pursued this question with Finance (see especially Ev. p. 220 and Exhibit 19 pp. 79-82) and was told that although the true economic cost of loans made out of the Corporation's capital would be measured by charging the Corporation the current LTBR on the total accumulated capital, it has not been the practice of governments to adjust interest rates on advances made in the past in the light of the current LTBR. There seems to be no reason why previous practice in this regard should be regarded as decisive, especially in view of the important fact that taxpayers and Parliament should have a full picture of the economic cost of programs. *The Committee therefore recommends that the Minister for Finance determine that the interest rate payable by the Defence Service Homes Corporation on its total accumulated capital be the current long-term bond rate, so that that Interest Subsidy item in Appropriation Bill No. 1 will in future reflect the full economic cost of the concessional interest rates applied to DSHS loans.*

Conclusion

111. Introduction of the optional grant could pave the way for the eventful introduction of the exclusive grant. This would only be possible when some of the unnecessary complications of the present Scheme have been removed. A start could be made, for example, by restricting the loan to those who would not be able to borrow on the market, while giving the cash grant to others. The optional cash grant should benefit recipients and lead to significant savings in administrative costs in the long-term. However, it may be sometime before some of these administrative savings are realised. It is therefore necessary to examine whether the Scheme has been administered with economy and efficiency. This will be the theme for the next chapter.

CHAPTER V

ECONOMY AND EFFICIENCY IN THE USE OF RESOURCES

Introduction

112. In any investigation into economy and efficiency, the basic objective is to find out if the authority is managing its resources, i.e. personnel, property, etc., in an economical and efficient manner. The matters to be assessed in a particular inquiry will depend, to a large extent, on the characteristics of the organisation being examined. Since salaries and associated payments constitute a large part of the administrative costs of the Defence Service Homes Corporation (over two-thirds of the total) the primary interest of the Committee is in the efficient use of personnel resources. Accordingly an attempt will be made to—

- measure/assess the efficiency with which personnel and certain other resources are used;
- assess whether management has the necessary information and procedures to monitor the efficient use of personnel and other resources.

The Need for Existing Staff Numbers

113. The DSHS has a staff of close to 1000 persons. As explained in paragraph 36 the Corporation has three basic functions and the bulk of the staff perform these functions. The Committee has concentrated its attention on the processing of applications (there are 195 established positions in the Housing Assistance Group) because in this area there are objective measures of efficiency.

114. Inputs and outputs can be defined and quantified and the ratios expressed as either unit costs of processing an application or as a physical productivity measure such as the number of man-days to process an application. These ratios can then be compared over time or on a State by State basis.

115. The Committee had such quantifications in mind when it asked the Corporation to supply an Organisation Chart, to describe the broad functions and duties of staff on a State by State basis, to relate administrative expenses to these functions and finally to provide information on the output of these functions.

116. On the basis of the information provided, 'efficiency ratios' (unit costs and man-hours for processing applications) were calculated for each of the States and the Corporation was questioned on the significant differences between States at the 6 September hearing. The Corporation revised these figures and the Committee appreciates this assistance. The Corporation also supplied a Review of the Operation Costs of the Defence Service Homes Scheme dated 21 June 1977 (Exhibit 10). In this review, unit costs of processing new applications have been calculated for each of the States and the Australian Capital Territory (A.C.T.) based on information for the period 1 July 1976 to 31 December 1976. These unit costs are shown in Table 2.

Table 2

UNIT COSTS OF PROCESSING NEW APPLICATIONS

State	$
New South Wales	297
Victoria	331
Queensland	252
South Australia	332
Western Australia	211
Tasmania	731
Australian Capital Territory	201
Average	282

Source: Exhibit 10, p. 39.

117. The report says '. . . it still doesn't look good for Tasmania, Victoria and South Australia and remedial action appears necessary'. The Corporation advised that the report, the first of its kind, was distributed to State Offices for comment. The responses are being examined by the Corporation as part of a review of methodology and the characteristics of the local environment, including State legislation, in which each State operates. The Corporation added that the costing experience will be applied to later periods as soon as the above issues have been settled (Exhibit 26, p. 258).

118. Another useful indicator of efficiency is physical productivity ratios. The Corporation uses standard time studies as a guide to the best utilisation of available manpower. The Committee was given standard times for processing new applications in Sydney. It takes a total of 743 minutes or 1.9 man-days to process a new application in Sydney. This figure does not include the work undertaken in areas outside the Housing Assistance Group. Since the Committee is examining efficiency of staff in this group the omission has no effect on this examination. The Corporation also says that standard times vary between States because local laws differ. It gave the example of a smoother conveyancing system in South Australia (Ev. p. 144).

119. The Committee has used another method of measuring the productivity of staff employed in the processing of new applications, namely the average number of man-days taken to process an application. Based on 1977-78 information the number of man-days estimated to be needed in each State and the A.C.T. to process one application is given in Table 3.

Table 3

AVERAGE MAN-DAYS TO PROCESS ONE NEW APPLICATION FOR ASSISTANCE

State	*No. of Man-Days*
New South Wales	1.77
Victoria	2.23
Queensland	1.78
South Australia	2.34

State	*No. of Man-Days*
Western Australia	1.47
Tasmania	3.66
Australian Capital Territory	1.93

Source: Estimated 1977-78 data in Exhibit 25, pp. 275 and 276.

120. The Committee questioned the Corporation very closely on these large differences in productivity and in fact had a continuing dialogue with Veterans' Affairs from September 1977 to April 1978. The Corporation's view is that it is not appropriate to conclude from the figures in Table 3 that there is scope for staff reductions. This opinion is based on two factors—

- man-day figures are one measure (standard times are another), several measures are needed which in their totality permit a realistic evaluation of relative State performance.
- reasons have been advanced (see paragraph 122) for State differences but these reasons are illustrative and work is continuing in this area (Ev. p. 256).

121. The use of the standard time measure is not disputed. In fact the Corporation is to be commended for this work. It is pointed out, however, that such a measure appears to accept existing procedures as the best. Man-day measures are of more value when they are available over a number of years. Their defect is that if they do not reflect overtime worked, this omission could distort State comparisons. Since the total overtime estimated for the Corporation in 1977-78 is $60,000 (Appropriation Bill No. 1 p. 130) it is most unlikely that there would be significant distortions in the Committee's calculations. What should be recognised is that standard time figures can be **converted** into man-day figures quite readily.[16] When the Sydney figure of 1.9 man-days is applied to the numbers of staff and new applications for 1977-78 (Exhibit 25, p. 276), it becomes apparent that either the standard time figure is too high or that the Sydney office needs more staff (3 more) or that the processing of new applications in Sydney could use about two-thirds of the overtime vote. The fact that standard time measures can be converted to man-day measures means that the Committee cannot accept the view that several measures are required which '. . . in their totality will permit a realistic evaluation of comparative State performance' (Exhibit 29, p. 293).

122. The Corporation advanced many reasons which it said 'illustrated' that there were State differences. It said that in all States except Western Australia settlements of applications took place outside the Corporation's offices,[17] that there is a low incidence of old titles in Western Australia, that conveyancing practices are not uniform throughout Australia and that in New South Wales there is need for a quick tentative approval to facilitate exchange of contracts (Exhibit 29, p. 293). The Corporation added that there are 'diseconomies of small scale in places like Tasmania' (Ev. p. 259).

16. Calculations of man-day equivalents of standard time work should take into account the fact that the standard times are based on an effective working day of 391 minutes and not the full working day (441 minutes).

17. Where persons obtain bridging finance and then receive the DSHS loan, the Corporation uses the loan to pay the institution that gave the temporary finance and the title of the security document is transferred to the Corporation.

123. This last reason presumably means that any section of a State office requires staff numbers greater than one person. But the Tasmanian State office has 26 persons of which 5 are in the Housing Assistance Group. Even if one accepted the 'diseconomies of small scale' argument it is quite inappropriate to conclude that the staff numbers in this group cannot be reduced.

124. The other reasons advanced by the Corporation have some relevance. The Committee notes that although South Australia appears to have the most efficient conveyancing system the Corporation's State Office has the second highest man-day ratio. Also settlements of applications apply to the 70% that obtain bridging finance.

125. *All these arguments ignore the quality of staff.* An internal review report on the Loans Administration and Insurance Group, completed in December 1975 (Defence Service Homes was then part of the Australian Housing Corporation) referring to the importance of staff selection, said the views in the report were shared by the team reviewing the Housing Assistance Group and concluded as follows:

'. . . . *many existing staff would be unacceptable for appointment to the Corporation* if the Corporation is to function efficiently and economically'. (Exhibit 26, p. 182).

126. In the following calculations the Committee has used the Western Australia figure of 1.47 man-days to process an application as a starting point. In recognition of some of the arguments advanced the Committee will make a generous allowance of more than quarter of a man-day for each application to cover additional settlement time and other factors. This gives a norm of 1.75 man days to process a new application within the Housing Assistance Groups. When this figure is applied to the other States, the scope for reductions in staff can be seen from Table 4.

Table 4

CALCULATION OF STAFF SAVINGS IN HOUSING ASSISTANCE GROUPS

(New Applications)

State	*No. of applications (a)*	*Man-days required (b)*	*Equivalent staff (c)*	*Present staff (d)*	*Difference*
(1)	(2)	(3)	(4)	(5)	(5–4)
N.S.W.	5 077	8 885	41.5	42.0	0.5
Victoria	3 487	6 102	29.1	37.0	7.9
Queensland	2 302	4 029	18.8	19.2	0.4
S.A.	1 384	2 422	11.5	15.4	3.9
W.A.		Not applicable			
Tasmania	263	460	2.2	4.5	2.3
A.C.T.	600	1 050	4.8	5.3	0.5

Notes:
(a) Number estimated to be processed in period 1.7.77 to 30.6.78 as shown in Exhibit 26, p. 276.
(b) col. 1 x 1.75.
(c) col. 3 ÷ figures (col.b) in Exhibit 26, p. 276.
(d) Exhibit 26, pp. 275 and 276.
Source: Exhibit 26, pp. 275 and 276.

127. *The Committee recommends that the numbers of staff used in the processing of new applications in the Defence Service Homes Corporation State Offices of Victoria, South Australia and Tasmania be reduced by 8 staff, 4 staff and 2 staff respectively.*

128. The Committee sees these staff reductions being achieved by wastage, by not filling promotions and transfers to other areas of the Public Service.

129. There are 39 persons employed by the Corporation in State offices in the Housing Assistance Group for work other than the processing of applications for new loans and second assistance. The Committee has been advised that some of the work measures have not been developed but that a work study which will facilitate such a development has been programmed for 1978-79.

130. The other areas where there are significant numbers of established positions are loans administration and insurance (130) personnel (247) and finance (267). In all these areas the Committee has not been able to find or develop methods or measures for checking the efficient use of staff resources. The Corporation was questioned on the need for existing staff in the collection of arrears and the Committee suggested a number of measures for assessing efficiency. It has accepted the Corporation's views on the difficulties of relating these measures to one another (Ev. pp. 262-268).

131. The Corporation has a good record in keeping arrears to a minimum. Over the last decade arrears, expressed as a percentage of outstanding loan balances, have never been above 0.12%, declined to a low of 0.05% in 1975 and 1976 and were at 0.07% in 1977.[18] The comparable figure for building societies is from 0.25% to 0.75% (Exhibit 25). It should be noted that monthly repayments of DSHS borrowers are probably much lower than the repayments of those who borrow from building societies. The Corporation has expressed concern that arrears have increased. While the Committee appreciates such concern, it cautions against increases in staff numbers unless it can be shown that the benefits-additional recoveries of arrears—exceed increased staff costs.

132. In these areas of administration one major avenue for staff savings is in the handling of applications. The State registries (93 established positions) handle and maintain details of every application received and this is one of the reasons for such big staffs. The Corporation is investigating the use of microfiche which it says could lead to significant reductions in registry staff (Ev. pp. 165 and 166). The Corporation or more correctly its predecessor, may have lost the opportunity to introduce what could be the least cost method of handling and maintaining information: a completely computerised information retrieval system. (See paragraph 136).

133. The Corporation is reviewing the need for existing registry staff. It is also examining the total internal audit arrangements. The Committee is of the opinion that these reviews should be examined by the Auditor-General.

The Use of Computers

134. The Corporation is in the process of installing a decentralised system of ICL 2903 computers in each State office. The new equipment has been installed in New South Wales, is being installed in Victoria and will be operating in all States by July 1978.

135. The decision to install this equipment was based on an automatic data processing feasibility study commenced in 1975 and a further study in 1977 to determine the number of terminal enquiry units needed. These reports were examined by the Interdepartmental Committee on Automatic Data Processing and the decision to

18. Various Annual Reports of the Defence Service Homes Corporation.

install the equipment was taken on the recommendation of that committee. The cost-benefit figures used in the report of that committee showed an overall cost saving of $6.5m over the next 10 years (Ev. p. 55). The Committee was given all these reports on a confidential basis.

136. Examination of the 1975 study shows that it had limited objectives in that it viewed the computer as an alternative to the accounting operations then in use. The study thus failed to consider in depth the multiple applications of computers in areas other than the maintenance of ledgers. The study could have covered use of the computer to store the complete history of all borrowers and could have examined the costs and benefits and compared these with the present registry system. Again, the study could have examined the case for the automatic typing of form letters e.g. loan approvals and arrears notices.

137. It may be possible, even at this late stage, to extend the use and effectiveness of the Corporation's computers. The Corporation could offer computer time to other departments on a shared basis, thereby using the equipment over at least two shifts daily. Consideration should also be given to the effectiveness of using magnetic tapes rather than microfiche for registry work, and for other applications, which would include the collection of repayments from borrowers (see paragraph 146).

138. *The Committee recommends that the Defence Service Homes Corporation undertake a cost-effectiveness study to determine whether magnetic tape units should be used—*

(a) to obtain cost savings by sharing the computer facility with departments; and

(b) as an alternative to microfiche in registry work.

Australian Postal Commission Charges

139. Borrowers can pay their monthly DSHS instalments at any post office in Australia. The other methods of loan repayments are at the Corporation's offices, through the mail, bank transfers or salary deductions (public service). About 80% of collections are handled through the post offices (Ev. p. 103). The Corporation will pay about $1.6m to the APC which charges a commission of 2.31% for the service it provides. In other words for the person whose monthly repayments are $73.82 (the monthly repayment for a $15,000 loan over 32 years) the commission is $1.71 a month. This figure appears to be quite high, and has led the Committee to look for more economical ways of collecting instalments than the APC system.

140. To assist the understanding of what the Committee proposes to do it is necessary to specify the objectives of the analysis. These are to find out whether—

- the alternative or combination of alternatives are reasonably convenient to borrowers and the Corporation compared with the present APC system; and
- the alternative or combination of alternatives costs less than the present system.

141. The present system is unique among lending institutions in that the Corporation pays an organisation to collect instalments due to the Corporation and does not recover the costs from users.

142. The first alternative the Committee raised was to give borrowers stamped envelopes and ask them to post their repayments to the Corporation. The Corporation said it was considering a pilot scheme which used the prepaid postage arrangement in Western Australia. The scheme would be voluntary and it was hoped to reduce costs substantially as a result (Ev. p. 273). The Committee was given a report which examined alternatives to using the Australia Post facility (Exhibit 33). This report costed payment by methods other than at post offices at $663,000. But this method, which should then result in cost savings of about $1m, was rejected on the curious grounds that it would increase government expenditure (Exhibit 33, p. 325). Briefly, the conclusion which is drawn, that there appears to be no acceptable alternative to the APC system, is not valid. The Committee is of the opinion that this alternative is worthy of further examination.

143. The second alternative was that new borrowers who do not repay their instalments by payroll deductions should be required to pay by bank transfers. The Corporation pays the APC about $1.70 a month or $20.50 a year for borrowers who take out the maximum loan over 32 years. A bank transfer system, assuming the Corporation compensates the borrower, would cost about $8.50 a year. Since about 6000 persons borrow each year the potential for direct savings is $72,000 a year. Some of the problems the Corporation saw initially have been resolved (see Exhibit 33, p. 310 and Ev. pp. 271 and 272). The Committee considers that this alternative too is worthy of further consideration.

144. The third alternative is to call tenders for the supply of the service that is now provided by the APC. The Corporation saw difficulties in specifying the terms of a tender and said that no other organisation has the network of branches and agencies available to the APC (Exhibit 29, p. 295). This argument is relevant only if one is looking for a single organisation to provide a national network.

145. A major private bank said it could supply a computer based system which would 'offer substantial technical and cost advantages over the present system' (Exhibit 36). The charge, based on current costs, would be 40c a transaction. There is provision for borrower identification through bank statements and the prospect of the information being provided on magnetic tapes. Use of such tapes could lead to significant savings by the reduction of work required under the present arrangements. If the offer of this bank is restricted to the State of New South Wales for example the cost savings would be in the region of $300,000 a year. The third alternative then has merit too.

146. Another major bank said that if given the opportunity it would not tender to supply the service now provided by the APC. It suggested the CEMTEX system 'as an efficient and inexpensive system for those DSHS borrowers who also have a cheque account with any trading bank' (Exhibit 34). The acronym CEMTEX is derived from the Central Magnetic Tape Exchange established by the Australian Banks. It can be described as paperless banking. The basic purpose of CEMTEX is to allow organisations which periodically make numerous payments or regularly draw on bank accounts under the authority of the customer, to put the transaction details on magnetic tape. The use of these tapes eliminates the use of vouchers, the preparation of schedules or deposit slips. The second major bank charges its customers $15.00 a tape (this fee is waived if there are more than 1765 items on the tape), a user lodgement fee of $15 and a fee ranging from 10c to 15c for each transaction. If the Corporation uses CEMTEX for borrowers who have bank accounts there is a distinct possibility of significant reductions in costs, not only in respect of current APC charges but also in relation to the work which is required by the present system.

147. The conclusion that can be drawn from the analysis in the preceding paragraphs is that there is a strong case for the present APC system to be either replaced by another system; or for other systems to be used in conjunction with the former.

What is required is a type of cost-effectiveness analysis which when applied to the payment of instalments, would—

- establish standards (objectives) such as ease of access for persons making repayments, administrative requirements and scrutiny
- identify alternative methods (banks, post office)
- cost each alternative and rate it against the standards (objectives); and then
- select the lowest cost/most effective alternative or combination of alternatives.

148. The detail and consultation required before conclusions can be reached do not make such work suitable for a parliamentary committee. It is work that should be undertaken by the Corporation with the assistance of others which have technical expertise. *The Committee recommends that the Department of Veterans' Affairs, the Department of Finance and the Public Service Board undertake a cost-effectiveness study of alternative methods of collecting repayments from borrowers.*

Land and Estate Development

149. It has been the practice ever since the inception of the original War Service Homes Scheme to acquire areas of land in broad acres for the erection of homes. After roads and other services are provided the land is used for group building or is made available to eligible persons for the erection of individual homes to their own design. All land made available in this way is allotted to eligible persons at the capital cost plus interest at the rate chargeable under the Act.

150. The Government announced that estate development and construction are to be phased out. In explaining this decision the then Minister for Veterans' Affairs said the eligible persons who obtained land from the Scheme bought this land at prices lower than market values. This advantage could not be enjoyed by all persons eligible for a DSHS loan. The second reason advanced was that since the Corporation had to pay the long-term bond rate on the moneys appropriated by Parliament after 30 June 1975 the holding costs of unsold land had to be calculated by using the LTBR. There was thus a tendency for the costs of land to rise towards market value. (Exhibit 36).

151. The Committee asked for and was provided with information on instances where costs have exceeded or could exceed market values (Exhibit 26, pp. 156 to 157). The Corporation listed fourteen undeveloped properties for which capital costs exceed or are approaching market values. It also referred to a total of 108 lots in Adamstown and Nowra in N.S.W. where the average cost per lot is approaching market values. In Bankstown the average cost of 49 town houses not sold at 30 September 1977 was $49,930 compared with an average market valuation of about $39,350.

152. The foregoing strongly suggests that the land acquisition and estate development activities of the Corporation could have resulted in financial losses to the Commonwealth. These losses would be, in part, the result of holding land surplus to requirements (Ev. pp. 187 to 188). At present the land owned by the Corporation has a potential for 9600 blocks. There are about 2700 applicants for land, and 1679 developed blocks. Almost half the applicants are in N.S.W. where the land holdings (developed blocks) are much smaller than the number of applicants. All this is indicative of the planning difficulties of the Corporation—costs greater than market prices, surplus in some States, insufficient developed land in others—all of which can be attributed to the restricted nature of its operations.

153. This does not mean that the public sector cannot efficiently manage and develop land programs that have a broader base. The Committee advises against the re-introduction of the land and estate development function in the Defence Service Homes Scheme.

Monitoring of Efficiency

154. In paragraph 112 the Committee stated its objectives in its examination of economy and efficiency in the use of resources. The preceding paragraphs have either measured or assessed the efficiency with which personnel and other resources have been used. What remains to be done is to assess management's performance in this area.

155. In recent years responsibility for the administration of DSHS has been transferred from one organisation to another. In 1974 the Scheme came under the then Department of Housing and Construction. In mid 1975 administration was shifted to the then newly created Australian Housing Corporation. In 1976 the Scheme re-entered the departmental structure when the Australian Housing Corporation was brought into the Department of Environment, Housing and Community Development. The next change occurred in October 1976 when administration of DSHS was again shifted; this time to the Department of Veterans' Affairs. In December 1976 the name of the Corporation was changed to the Defence Service Homes Corporation.

156. The Secretary of the Department of Veterans' Affairs referred to the impact these changes have had on the administration of the scheme (Ev. pp. 4-7). The Committee has sympathy for this view. It believes that efficiency must suffer if DSHS continues to be shunted in and out of the public service departmental structure or from one department to another. The need for stability is quite apparent.

157. The Committee did not examine closely whether management has the best procedures to operate the scheme efficiently. The information available nevertheless permits the Committee to conclude that the Department of Veterans' Affairs and the Defence Service Homes Corporation is taking steps to ensure that DSHS is administered efficiently. Work has commenced on the construction of efficiency measures i.e. unit costs and standard times. A number of reviews have either commenced or have been completed. Computer equipment is being installed. The Administration and Operational Review Section has also done useful work (Exhibit 26, pp. 151-255).

158. The Committee's interest is in the establishment of a process—a mechanism—by which parliamentary oversight and scrutiny can be continued. This can be done in two ways. The first is for the Auditor-General to review the administrative efficiency of DSHS. This should be done after the reviews mentioned in paragraph 133 have been completed and the Committee's recommendations have been implemented. In other words the Committee suggests that after a settling-in period the Auditor-General should commence his examination. An appropriate time would be during the 1979-80 financial year.

159. The second way by which the Parliament can maintain continuing oversight is for the annual reports of the Defence Service Homes Corporation to contain relevant information. The Committee does not have in mind a collection of generalisations. It is searching for specific measures such as unit costs for processing applications and maintaining securities on a State by State basis. Such information could be, for example, adjusted by an appropriate index so as to provide a time series that is not affected by inflation. The Corporation, quite understandably, said these costings would have to be accurate. It also said these figures are not normally published by other lending institutions. This is not a valid reason for the Parliament not to be kept informed.

160. The Committee also discussed the publication of physical productivity indexes on a State by State basis. A start should be made by compiling information on the number of man-days taken to process new applications. This could show whether each State is getting better or worse at carrying out an important part of its function.

161. *The Committee recommends that annual reports of the Defence Service Homes Corporation include information on unit costs of processing new applications and maintaining securities in each State office and information on the number of man-days taken to process new applications in each State office.*

Insurance

162. Though this matter does not integrate easily in a chapter that deals with efficiency in the use of resources, it is best dealt with here.

163. The legislation requires persons who receive loans from DSHS to insure with the Defence Service Homes Insurance Scheme. In other words the Scheme is operating a type of 'tied' insurance arrangement. As a condition of giving the housing loan, it requires—it ties—the borrower to obtain insurance from a nominated insurance company, i.e. the DSH Insurance Scheme. If the Corporation were a bank or a building society this 'tied' insurance arrangement could constitute an exclusive dealing arrangement under section 47 of the *Trade Practices Act* 1974. Yet the Corporation is exempt by virtue of section 51 (1) (a) of the Act because it carries on a business through the power of its own legislation.

164. The Trade Practices Commission has refused the authorisation for permanent building societies to continue 'tied' insurance arrangements.[19] The Committee asked the Department of Business and Consumer Affairs why, in these circumstances, persons who get a DSHS loan are so restricted. That department said it did not know, though not in as few words (Exhibit 30).

165. *The Committee recommends that appropriate changes be made to relevant legislation to allow persons who obtain loans under the Defence Service Homes Scheme to insure their properties with the company of their choice.*

K. M. CAIRNS
Chairman

18 May 1978

19. Commission determination of 30 June 1976 in respect of applications by several permanent building societies for authorisation under s. 88 (6) of the Trade Practices Act.

APPENDIX 1. WITNESSES AND EVIDENCE

(a) List of Witnesses

COLE, Mr A. S.	Assistant Secretary, Development Projects Branch, General Expenditure Division, Department of Finance.
DAVIES, Mr P. M.	Special Projects Officer, Defence Service Homes Corporation, Department of Veterans' Affairs.
HARRIS, Mr W. J.	First Assistant Secretary, Housing Division, Department of Environment, Housing and Community Development.
KELLY, Mr R. G.	Acting Secretary, Department of Veterans' Affairs.
KINGSLAND, Mr R.	Secretary, Department of Veterans' Affairs.
McCANN, Mr P.	Supervisor, New South Wales Branch, Defence Service Homes Corporation, Department of Veterans' Affairs.
MUTTON, Mr K. R.	Manager, Program Implementation Branch, Defence Service Homes Corporation, Department of Veterans' Affairs.
NOTT, Mr F. L.	Director, Personnel and Establishments, Defence Service Homes Corporation, Department of Veterans' Affairs.
O'MEARA, Mr P. B.	Chief Finance Officer, Social Security Division, Department of Finance.
REYNOLDS, Mr J.	Acting Director, Finance, Defence Service Homes Corporation, Department of Veterans' Affairs.
SELLECK, Mr A. J.	General Manager, Defence Service Homes Corporation, Department of Veterans' Affairs.

STENHOUSE, Mr C. E.	Manager, Corporate Planning and Evaluation Branch, Defence Service Homes Corporation, Department of Veterans' Affairs.
WARK, Mr M.	First Assistant Secretary, Social Security Division, Department of Finance.
WINDER, Mr O.	Insurance Officer, Defence Service Homes Corporation, Department of Veterans' Affairs.

(b) Evidence

Evidence was taken by the sub-committee appointed during the 30th Parliament at public hearings on 26 August, and 6 and 13 September 1977 and at an *in-camera* hearing on 11 October 1977. Evidence was taken by the sub-committee appointed during the 31st Parliament at an *in-camera* hearing on 10 April 1978. Witnesses were told at the *in-camera* hearings that the evidence would be published after the Report was tabled in the House of Representatives. The sub-committee also received submissions which were treated as Exhibits and has authorised publication as shown below:

Index of Published Exhibits

Exhibit No.		*Page*
1	Organisation charts of the Defence Service Homes Corporation	2–11
2	Table showing comparison of administrative costs by functions	12
3	Statistical information on applications, securities, etc.	13–23
4	General Orders (Vols I and II) of the Corporation	*
5	Document entitled A Home of Your Own	*
6	Document entitled Guide for Defence Service Home-Owners	*
7	Feasibility Study—Final Report Defence Service Homes Corporation	+
8	Report on evaluation of tenders received for the supply of equipment in response to a tender	+
9	Terminal Equipment Proposed for Use by the Defence Service Homes Corporation	+
10	Review of Operation Costs of Defence Service Homes Corporation	24–53
11	Second Mortgage Schemes	54–58
12	Application forms for Defence Service Homes loan	*
13	Non-Repayable Grants Option	59–64
14	Submission from Department of Veterans' Affairs dated 18 October 1977 on the 'real value' of the benefits of the Defence Service Homes loan	65–67

* Not published
† Confidential

APPENDIX 2

DISTRIBUTION OF ESTABLISHMENT
(at August 1977)

	NSW	*Vic.*	*Qld*	*SA*	*WA*	*Tas.*	*ACT*	*CO*	*Total*
Personal Assistance	23	19	12	11	12	4	2	..	83
Legal Assistance	35	28	12	8	9	3	4	..	99
Regional Offices	6	6	2	..	..	1	..	..	13
1. Total Housing Assistance	64	51	26	19	21	8	6	..	195
Arrears	12	10	6	4	3	2	2	..	37
Insurance	18	14	7	6	6	1		..	54
Loans Administration	14	10	5	3	3	1	3	..	39
2. Total Loans Administration and Insurance	44	34	18	13	12	4	5	..	130
Design	5	5	7	11	9		..	..	
Construction	24	19	12			3	2	..	126
Contract Administration	7	6	4	3	5		..	..	
Land Acquisition	2	2					..	..	
3. Total Development	38	32	33	14	14	3	2	..	126
Ministerial and Special Projects	3	2	1	1	1		..	..	
Personnel	7		4	4	4	6	..	..	154
Training	2	38	1	1	1		..	..	
Office Services	33		20	13	12		..	..	
Registry	32	32	12	7	7	3	..	..	93
4. Total Personnel and Services	77	72	38	26	25	9	..	..	247
Budget and Statistics	4	4	3	3	3		..	..	
General and Administration	10	10	8	6	6		..	..	
Development	7	5	5	4	3	6	..	..	183
Personal Loan Maintenance	14	13	19	11	13		..	..	
Personal Loan Variation	8	7	5	3	3		..	..	
Automatic Data Processing	30	32	..	..	..	..	..	..	62

	NSW	Vic.	Qld	SA	WA	Tas.	ACT	CO	Total
Internal Audit . . .	6	6	3	3	3	1	..	..	22
5. Total Finance (Accounts and Others)	79	77	43	30	31	7	..	..	267
6. Central Office . .	..	..	..	..	..	..	..	69	69
7. Executive . . .	2	2	2	2	2	1	1	..	12
8. TOTAL	304	268	150	104	105	32	14	69	1046

Source: Derived from Exhibit 1.

APPENDIX 3. A SUMMARY DISCUSSION OF SOME OTHER ALTERNATIVES

In the course of its inquiry, the Committee has devoted attention to a number of alternatives to the present arrangement of giving concessional loans secured by first mortgages. Although we decided to pursue just one of those alternatives—the cash grant proposal—a brief summary of the other major options considered might be appropriate.

2. An obvious alternative to the present concessional interest rate loan is the possibility of converting the benefit into an explicit monthly subsidy equal to the cash equivalent of the present implicit subsidy. Eligible persons would, then, borrow all that they require from commercial sources, but would receive a monthly subsidy to put towards their repayments. An advantage of this arrangement (shared with the grants proposal) is that it makes completely clear to recipients and taxpayers alike just what it is that DSHS beneficiaries are being given. Its disadvantages include the fact that we would either have to allow the subsidy to fluctuate with market interest rates, or fix its value for a specified period and run the risk of everyone feeling worse-off particularly if we anticipate that future interest rates will fall. In a sense, this is similar to, but more immediately visible than, the problems we have identified in relation to the grant option. The main difference between the two is that unlike the grant the subsidy would require a continuous administrative effort in addition to the initial assessment of eligibility which is required by both. Moreover, we suspect that commercial lending institutions would respond more favourably to potential borrowers who have a significant grant available to put in as their equity than to borrowers who had a monthly subsidy (even one guaranteed by government).

3. Another alternative which the Committee considered during its deliberations, but did not pursue further, was the idea that larger loans be available, but at higher interest rates than those which are presently charged under DSHS. Exactly where one would draw the line is not obvious, though a loan sufficient to cover, say, 90% of the cost of a standard three-bedroom house with an interest rate close to long-term bond rate might provide an upper limit. Such a proposal would undoubtedly increase administrative costs because its viability would depend on adjusting the interest rate charged, and hence repayments required, in line with changes in market rates. Furthermore, such a scheme would either reduce the number of loans that could be made annually or require increased public outlays for a large number of years.

4. The Committee also considered the possibility of allowing eligible persons to secure their DSHS loans by a second mortgage if they saw advantages in doing so. It became apparent, however, that the advantages of offering this option are similar to those attached to the cash grant for those who now pay high second mortgage rates, but would be achieved at higher cost under this second mortgage option than under cash grants. That is, unlike the cash grants proposal the optional second mortgage would not generate any savings in administrative costs (indeed it might increase them), and it would also involve taxpayers accepting a higher risk than under the existing first mortgage arrangement. For these reasons the Committee decided against recommending the introduction of this option.

APPENDIX 4. CALCULATION OF THE SIZE OF THE CASH GRANT

In the text of the Report it was stated, in respect of the exclusive cash grant, that while there is no necessary relationship between its size and the value of the present interest rate concession, it is likely that the size of the grant would be determined in the first instance by the value of the existing concession. In the case of the optional cash grant there would be a direct relationship. This Appendix explains in some detail how the Committee has calculated the basic size of the cash grant.

2. The rationale for giving eligible persons a cash grant, the size of which is related to the value of the loan at concessional interest rates, can be explained as follows. The present scheme, through concessional interest rates, provides eligible persons who take out the DSHS loan with a subsidy *vis-a-vis* the rest of the population who have to borrow at much higher interest rates (excluding those who have very low interest welfare housing loans from the States or those who work for financial institutions). This subsidy is, to some extent, given explicit recognition in the Budget because money has been appropriated under an Interest Subsidy item for the DSH Corporation to pay into the Consolidated Revenue Fund. One way of measuring the true value of the subsidy is to compare actual loan repayments with those that would be necessary if higher rates of interest, say the long-term bond rate (the rate at which the Commonwealth can borrow money to make loans available) were charged to borrowers. Since repayments (interest and principal) would continue for the period of the loan (32 years) it is possible to calculate the subsidy for each of the 32 years of the loan.

3. Using this technique the present value of the benefit of a $15,000 loan when the present LTBR is applied and the repayments attract their current rate of about 4.505 per cent, is $46.55 a month. In other words, giving the DSHS recipient the interest concession is equivalent to giving him a monthly subsidy of $46.55. This subsidy has a present value of about $5,800. This is to say that giving a recipient a lump-sum grant of $5,800 rather than $15,000 at 4.5 per cent over 32 years and requiring him to borrow the balance $9,200 at 9.1 per cent would be equivalent to giving the recipient the monthly concession he now receives.

4. The question posed in the body of the Report is why not give eligible persons the lump-sum—a grant—instead of the concessional loan? Part of the difficulty in providing a categorical answer to this question stems partly from the fact that the precise calculation of the equivalent grant is not as simple as the above example seems to suggest. The size of the cash grant is determined by the interest rate(s) used as the alternative borrowing rate, the interest rate(s) actually paid on the DSHS loan, the actual period of repayment chosen and the size of the loan actually taken out. The major problems are discussed below.

5. The Department of Finance (Finance) accepts the discounted cash flow technique used in the example in paragraph 3 as a means of calculating the broadly equivalent cash grant. It says among other things that '(c)entral to any discounted cash-flow calculations in this context is the choice of a particular rate of interest to be used as a basis for comparison with concessional rates offered under the DSHS and as the discount factor in calculating present values of future streams of costs and benefits' (Exhibit 19, page 85). Finance adds that while interest rates other than LTBR, could be used, it agrees that the Committee's choice of LTBR 'seems a reasonable choice in this context' (Exhibit 19, p. 85).

6. Selection of the LTBR as an appropriate rate does not solve the difficulty of selecting a particular level or levels of LTBR over the life of the loan. Finance say that even 1% to 2% reductions in the LTBR would produce significant reductions in the size of grants, while the Department of Environment, Housing and Community Development (EHCD) says that to base the cash grant on the existing LTBR (11 October 1977) '*would be a very generous offer and might build into the scheme* something which has not been a feature throughout its history' (Exhibit 18, page 74). It is prudent to assume that there would be a gap between present and future LTBR's to avoid the danger that EHCD referred to. The amount of this gap is a matter of broad judgment, a matter the Committee will take up later.

7. The next matter that needs to be examined is the size of loan to be used in the calculation. While the statutory maximum is $15,000 the Department of Veterans' Affairs (Veterans' Affairs) says that in 1977 the average size of the loan was $14,300 (Exhibit 20, page 87). This latter figure could be misleading. It would include second assistance loans which would tend to pull the average down. Further, as noted earlier the open-ended nature of the scheme probably encourages some beneficiaries to come back for more. If the size of the grant were related to the maximum loan size there would be no double counting. The Committee will use a $15,000 figure in its calculations.

8. However those who now have entitlement to additional assistance (or even second assistance) could also in principle be offered the option of taking a grant, but obviously one of less than maximum value. Since the interest rate for additional assistance is 7.25%, the equivalent grant would be the present value of the difference between a small loan at 9.1% (or less) and the same small loan at 7.25%.

9. There is also the question of the length of the repayment period to be used in the calculation. While the maximum period is 32 years, the Committee was told that the average period for the discharge of loans, based on 1976-77 figures, was 14 years. Departments pointed out that the relevant calculation should be over 14 and not 32 years (Exhibit 13, page 60 and Exhibit 20, page 87). The Committee has examined this argument very carefully. It has found out that the State offices of the Corporation maintain discharge registers which record details of the date of settlement (i.e. commencement of loans), date of discharge, period of loan (in years and months) and the amount of the liability discharged. Thus the 14 year average was a simple Commonwealth average of the length of time the 9000 odd loans actually discharged in 1976-77 have been in existence. The Committee has also examined part of the N.S.W. discharge register, which covered over 900 discharges. The register does not give specific reasons why loans are paid out prematurely. Some of the reasons are death of spouse and sale of property. The Committee is prepared to accept the 14 year figure as being representative of the position in 1976-77. However, other information requested by the Committee shows that the average period of repayment has been increasing steadily from 1969-70 (Exhibit 29, page 289). In these circumstances the Committee has decided to adopt a period of 20 years for the length of repayment in the calculation rather than the maximum of 32 years.

10. If we now put these various elements together we get the following picture. The technique for calculating cash grants is accepted. It is more reasonable to accept a repayment period of 20 years rather than either 14 or 32 years and it is appropriate to use the loan amount of $15,000 rather than a lesser figure. But uncertainty remains over the choice of a particular interest rate. While it is prudent to use a rate that is lower than the current rate, whatever rate one chooses is open to question. The following table shows the cash grant equivalent for a range of interest rates and repayment periods.

GRANT EQUIVALENT OF DSHS CONCESSIONAL LOANS UNDER VARIOUS ASSUMPTIONS

Long-Term Bond Rate	*Grant Equivalent to $15,000 Loan over 32 years (a)*	*Grant Equivalent to $15,000 Loan over 20 years (a) (b)*	*Grant Equivalent to $15,000 Loan over 14 Years (a) (c)*
	$	$	$
7.5	4,270	4,000	3,500
8.0	4,990	4,510	3,980
8.5	5,270	4,990	4,430
9.0	5,720	5,430	4,850
9.5	6,130	5,840	5,250
10.0	6,510	6,230	5,630
10.2	6,650	6,380	5,780
10.5	6,860	6,590	5,990

(a) Assumes continuation of existing DSHS concessional interest rates
(b) Assumes loan discharged by lump sum payment after 20 years
(c) Assumes loan discharged by lump sum payment after 14 years
(d) All calculations based on DSHS interest rate of 4.505%; figures rounded to nearest $10

11. It should be obvious by now that broad judgements are required. The Committee's view is that a basic cash grant of $4,500 to $5,000 would be roughly equivalent to a $15,000 loan at concessional interest rates. In this respect the opinion of Finance is worth repeating—.

> 'Even if the conceptual and practical problems were to be resolved satisfactorily, uncertainty about the levels of future interest rates (a crucial factor in determining the value of the DSHS interest concessions) preclude any real precision: inevitably broad and to some extent arbitrary judgements would be involved in determining the appropriate size of any grant. Having regard to the factors mentioned above, our own broad judgment is that if any grant option were to be available it ought probably to be significantly less than the [amount] produced by the sub-committee's sample calculation. A range of possibilities [can be] covered. No doubt in practice a rounded figure would be seen as appropriate (e.g. $5,000).' (Exhibit 20, page 87).

APPENDIX 5. BASES FOR CALCULATIONS IN CHAPTER 4

Calculation of Administrative Savings in Paragraph 81

At present the administrative costs of DSHS consist of about $14m for salaries and other expenses and an additional $2.4m for superannuation and office accommodation. It is probable that this total of $16.4m does not cover all the costs of administration. If one uses the Staff Costing Ready Reckoner of the Public Service Board total staff costs (the long-term annual cost of staff) can be obtained by multiplying salary by 174%. When applied to DSHS staff salaries (10.9m) this gives a figure of $18.97m to which must be added the $1.6m payment to the Australian Postal Commission, thus giving a total of $20.5m.

2. The Committee proposes to use the figure of $16.4m in its calculations because it is probably more appropriate. Also it is not a figure net of receipts which recover the costs of the insurance scheme and some of the costs of processing applications.

3. The work required to process applications for cash grants would be much less than the work of processing housing loan applications. Obviously the experience of the Homes Savings Grants Scheme will be relevant. Under this scheme the rate of applications has increased to some 1100 a week. The number of staff used directly for processing applications and handling inquiries is 61. This figure excludes registry and other support staff.[1] As a rough estimate if one bases DSHS (exclusive cash grant) requirements on the productivity of staff in the Home Savings Grants Scheme it is unlikely that total staff would exceed 125 (including insurance staff) nor for total administrative costs to exceed $2.5m. In other words the order of magnitude of administrative savings is about $14m.

4. At present about 6000 applications are approved in a year (Exhibit 3, page 15). It is possible then to distribute this saving between the taxpayers and the beneficiaries by giving eligible persons say $2,000—to make the grant sufficiently attractive to them. If the number of eligible persons that receive the grant increases say to 12 000 it is still appropriate to give each $2,000 because under the loans scheme administrative costs would have to be incurred for the extra numbers.

Calculation of Figures in Paragraph 83

5. Exhibits 32 and 35 reveal differences between the States in the first mortgage interest rates of building societies. The observed range is from 10.4% over 30 years to 11.75% over 30 years. For the former monthly repayments for a $9,000 loan are $81.65 and for the latter $90.85.

Calculation of Figures in Paragraph 86

6. The loan requirement of $9,000 would be reduced by the bridging finance saving of $1,510 to $7,490. This amount when borrowed from building societies at interest rates of 10.4% or 11.75% over 30 years gives monthly repayments of $67.95 and $75.61 respectively.

---

1. Home Savings Grant Act 1964, Homes Savings Grants Act 1976, Annual Reports for the Year 1976-77, pp. 5 and 6; Department of Environment, Housing and Community Development.

Costs of Doubling the Numbers who Receive DSHS Benefits (Paragraph 90)

7. At present $94.6m is provided for DSHS programs in 1977-78. If an exclusive cash grant of $6,000 were given to 12 000 persons, that is twice the numbers catered for by the housing loan, government expenditure would be $72m. On the basis of 1977-78 figures there is the opportunity for the government to more than double the numbers serviced and to make short-term savings of the order of $23m.

Calculation of Figures in Paragraph 88

8. A person who borrows $15,000 from DSHS and $10,000 from a finance company (at say 15% over 15 years) would have total monthly repayments of $73.82 + 139.96 = $213.78. If he obtained his bridging finance from this institution he would pay another $2,050. Now if he got a $6,000 grant (to which should be added the $2,050 savings in bridging finance) and got the balance ($25,000–$8,050 = $16,950) from a building society at say 11% over 30 years, his monthly repayments would now be $161.42. In other words he benefits by $52.36 a month for 15 years.

Calculation of the $500 Administrative Savings in Paragraph 100

9. This is based on the savings in the costs of processing housing loan applications ($282—Exhibit 10, page 39 minus fee of $75) plus the savings in loans administration which is $40 (same exhibit page) for say 14 years converted to its present value—say $300.

Basis for Statements in Paragraph 102

10. Persons who get a cash grant of $5,500 benefit from bridging finance savings ($1,510) and borrow the balance from some building societies would be better off in that their monthly repayments would be less than the present $73.82 for the DSHS loan. They would need $7,990 ($15,000–(5,500 + 1510)) and if they pay interest at 10.4% over 30 years their monthly repayments would be $72.49.

On the other hand those who pay interest at 11.75% would have monthly repayments of $80.65.

NOTES

NOTES

NOTES

NOTES