

The Parliament of the Commonwealth of Australia

Accommodation for Married Servicemen

Report from the House of Representatives
Standing Committee on Expenditure

May 1977

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1. Replaced the Hon. I. M. Macphée, M.P. (resigned) on 17 November 1976.

2. 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.

3. Replaced Mr R. Jacobi, M.P. (resigned) on 25 May 1976.

TERMS OF REFERENCE

The House of Representatives Standing Committee on Expenditure was appointed to:

- (a) consider any papers on public expenditure presented to this 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 this House.

ABBREVIATIONS

CSHA	. . . . .	Commonwealth-State Housing Agreement
CSHA(S)	. . . . .	Commonwealth-State Housing Agreement (Servicemen) 1972
DSHS	. . . . .	Defence Service Homes Scheme
DAS	. . . . .	Department of Administrative Services
DCT	. . . . .	Department of the Capital Territory
Defence	. . . . .	Department of Defence
EHCD	. . . . .	Department of Environment, Housing & Community Development
Finance	. . . . .	Department of Finance
Treasury	. . . . .	Department of the Treasury
GRS	. . . . .	Group Rent Scheme
SSSA	. . . . .	Service Scales and Standards of Accommodation
TAA	Temporary Accommodation Allowance
TRA	Temporary Rental Allowance

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RECOMMENDATIONS

The Committee recommends that:

1. from and including the financial year 1977-78 there be no provision for expenditures in the estimates to build or acquire accommodation for married servicemen:

- the only exceptions to this general principle would be appropriations to continue programs commenced in previous years, to build houses on-base when there is a Defence need and to obtain accommodation in areas where the housing market cannot physically cope with the numbers required.(Paragraph 134 (a)).

2. during the financial year 1977-78 funds be allocated to cover the expenses associated with the determination of market rents for the present Defence housing stock. (Paragraph 134 (b)).

(These would be the only changes in 1977-78)

3. from and including the financial year 1978-79 all married servicemen who suffer disadvantages in relation to housing and who rent accommodation from the private market receive a Rent Allowance while those who rent from the Defence stock receive a rent concession (implicit subsidy) of equal value:

- the levels of these benefits should reflect the housing-related disabilities suffered by servicemen that are not compensated for by other schemes,
- there should be equality of treatment for servicemen of the same rank and in the same market whether they receive the Rent Allowance or the rent concession,
- the levels of assistance should be reviewed regularly. (Paragraph 134 (c)).

4. from and including the financial year 1978-79 maximum effort be made to transfer servicemen renting government houses in the Australian Capital Territory to the private market, thus permitting reductions in budget outlays of about \$25m. (Paragraph 134 (d)).

5. from and including the financial year 1978-79 the existing Defence housing stock be gradually reduced by returning dwellings to the States, selling Commonwealth-owned dwellings and not replacing other Commonwealth-owned dwellings whose economic life has ended.(Paragraph 134 (e)).

6. the Commonwealth negotiate with the States to have the vacancies and default factor removed from the economic rent formula.(Paragraph 134 (f)).

7. at some stage in the process of running down the Defence housing stock the Group Rent Scheme be abolished.(Paragraph 134 (g)).

8. as long as the scheme lasts, rents set under the Group Rent Scheme be reviewed quarterly.(Paragraph 134 (h)).

9. from and including the financial year 1978-79 the Commonwealth establish an estate agency co-ordination service which would assist servicemen to find accommodation on the private rental market.(Paragraph 134 (i)).

10. primary responsibility for administration of and advice on Defence housing be transferred to the Department of Environment, Housing and Community Development. (Paragraph 134 (j)).

11. the Minister for Veterans' Affairs authorise that a serviceman be allowed to use his Defence Service Homes Scheme loan to acquire a house in a locality to which he is compulsorily posted, whenever he is posted, providing that the outstanding balance of the initial loan does not increase and that a special allowance related to the annual value of the Rent Allowance be granted to assist married servicemen with the costs of certain transactions involved in the buying and selling of houses. (Paragraph 134 (k)).

Recommendation 1 provides for the continuation of provision programs to meet certain exceptions. In respect of these exceptions the Committee recommends that:

12. the relevant departments consult with appropriate organisations when reviewing standards for servicemen's housing. (Paragraph 135 (a)).

13. the Department of Environment, Housing and Community Development examine the proposition that State housing authorities build low set houses for the Defence stock because of the cost savings of \$3,000 to \$4,000 a house. (Paragraph 135 (b)).

14. factors such as savings in the Temporary Rental Allowance and cost escalation of building programs be taken into consideration when decisions are being made as to whether acquisition or new construction is the more economical way of providing housing. (Paragraph 135 (c)).

15. work on selection of the most economical ways of providing servicemen's housing be carried out by the Department of Environment, Housing and Community Development. (Paragraph 135 (d)).

16. funds for married servicemen's housing be appropriated under one vote. (Paragraph 135 (e)).

INTRODUCTION

The Committee was appointed by resolution of the House of Representatives on 29 April 1976. The Committee decided that its initial task was to examine its broad terms of reference with a view to establishing procedures that achieve effective scrutiny of the estimates by the Committee for and on behalf of the House.

The Committee began by conducting a series of *in-camera* hearings in May and June 1976 with the Chairman of the Public Service Board, the Secretaries of the Treasury and the Department of the Prime Minister and Cabinet, the Auditor-General and the Chairman of the Royal Commission on Australian Government Administration.

In July 1976 the Committee sought information on several programs, including those on accommodation for married servicemen. After further study and deliberation the Committee resolved on 23 September 1976 to conduct a formal inquiry into accommodation for married servicemen.

In selecting this subject for Inquiry the Committee was influenced by the fact that the programs had not been examined closely outside departments since the programs commenced some 20 years ago. Expenditure had increased significantly in the period 1973-74 to 1976-77.

The Committee appointed a sub-committee to inquire into and report to the Committee on Accommodation for Married Servicemen. The sub-committee consisted of the Hon. R. V. Garland (Chairman), the Hon. F. E. Stewart, the Hon. K. M. Cairns, the Hon. F. Crean, the Hon. W. C. Fife, Mr S. A. Lusher and Mr J. W. Sullivan. The Committee also appointed Mr C. Walsh, Lecturer in Public Finance at the Australian National University as Specialist Adviser for the Inquiry. The Committee and the sub-committee are most grateful to him for the valuable advice he has given for which only a nominal fee could be paid.

The sub-committee took evidence from the Department of Defence at public hearings on 8 and 15 October 1976. On 29 November officials from the departments of Defence, Treasury (now Finance), Administrative Services and Environment, Housing and Community Development attended an *in-camera* hearing at which the sub-committee concentrated questioning on areas it felt to be more important. This was followed by further *in-camera* hearings on 18 and 21 April 1977 at which the sub-committee discussed its emerging conclusions with the Secretary of the Department of Defence, the chiefs of personnel of the 3 Services and senior officers from Finance and EHCD. The sub-committee has authorised publication of all the *in-camera* evidence. All the evidence is available in Hansard form, for inspection at the Committee Office, House of Representatives and at the National Library.

The Committee sees value in this inquiry procedure. It gives departments the opportunity to respond to Committee views and the Committee the chance to assess these responses. It will result in greater effectiveness in the work of financial scrutiny which the House has entrusted to the Committee.

The Committee places on record its appreciation of the co-operation given to it by private enterprise and government departments, and in particular by the Department of Defence. The report is mainly the work of the sub-committee.

When the motion to appoint the Committee was moved in the House on 8 April 1976 the Prime Minister made a number of suggestions on the way in which the Committee might function. These were contained in a document entitled 'Operational Guidelines'. It was suggested that the Committee should take 'stated Government policies as given and confine its investigations to the effective and economic implementation of such policies and matters related to the formation of estimates of expenditure'. (Hansard 8 April 1976, p.1497).

The Committee is generally prepared to accept this guideline because the major thrust of its investigations would relate to economy and efficiency in the use of resources and the effectiveness in achieving specified objectives.

The Committee informs the House, however, that policy matters could arise as ancillary issues in the course of an in-depth examination. It is sometimes difficult to know where administration ends and policy begins; and in some cases the existence of waste, extravagance or an obvious poor use of scarce resources could lead to judgments about the policy itself.

CHAPTER I

SUMMARY¹

There is urgent need for a complete overhaul of the programs that provide accommodation for married servicemen.

2. The Committee has reached this conclusion after what is probably the most comprehensive examination undertaken since these programs were introduced in the mid 1950s.

3. The programs examined are basically of 3 types. The first is the provision programs whereby the Department of Defence obtains a housing stock for exclusive use by married servicemen. A second group of programs which might be called assistance programs includes payment of allowances that assist servicemen to find housing or which subsidise the rent they pay for private accommodation. For reasons of equity the third type of program, the rent program, was introduced recently. Rents of defence housing stock are averaged under a Group Rent Scheme. Further details of all the programs are given in the second chapter of this report.

4. Continuation of the provision programs will require budget outlays of about \$260m (at 1976-77 prices) in the long term. This is a significant call on limited resources in the Defence vote. Its magnitude not only requires close examination of whether housing is being provided in the most economical ways but also demands consideration of whether there is a more effective and more economical alternative to the provision of accommodation.

5. The third chapter provides a critique of existing programs. The information available clearly establishes that accommodation has not been provided in the most economical ways. The major criticism the Committee has of the operation of the existing programs therefore is that outlays on housing for servicemen are substantially higher than they need be because a sufficiently careful choice has not been made between the alternative sources of housing available. Analysis will show that many houses are being constructed by the States which private builders could construct for significantly lower cost; that acquisition of many more established houses from the private market in preference to construction would produce still further savings in outlays; and that failure to see the full advantages, and full opportunities, for maximising hirings (i.e. leasings of rental accommodation, a suggestion supported in 1973², has prevented outlays from being held to the lowest level consistent with existing standards.

6. In other words, there has been a failure to establish the best mix of alternative sources of accommodation, and hence the minimum of outlays for a given stock has not been achieved. In addition there are aspects of present standards and procedures for dealing with long-term unoccupied dwellings that raise costs by further unnecessary amounts.

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.

2. Financial Terms and Conditions of Service for Members of the Regular Armed Services, Final Report of the Committee of Inquiry, p. 56; 1973—Parliamentary Paper No. 25.

7. Superficially, it is tempting to argue that much of this is of little consequence since in the long run (over 53 years as a rule) the Commonwealth recovers its initial outlays with interest now at the long-term bond rate. But to argue this way is to miss the point that it is servicemen who ultimately meet the repayments, and under present rent-setting formulae excessive outlays by the Commonwealth imply service rents which are higher than otherwise. Indeed it seems to the Committee that the proposed average rent increase of 40% this year in the GRS has been caused partly by the uneconomic nature of previous and continuing housing provision decisions.

8. The Committee expresses its concern not only at this rate of increase but also at the possibility of significant increases in the future. Defence has attempted to allay our concern of a crisis in servicemen's rents but cannot explain satisfactorily the 40% increase. Much of the difficulty lies with the unwillingness of Defence to recognise that servicemen receive implicit rent subsidies because GRS rents are below market rents. The Committee accepts that servicemen should receive rent subsidies. What is criticised is the way in which the subsidy is determined. This may be a deficiency of governments rather than Defence. The implicit rent subsidy is the difference between market rents and GRS rents and changes as these two factors change. A more rational method is required and in later paragraphs the Committee will argue for a fixed level of concession. If this is not accepted the Committee warns that as the gap between market and GRS rents closes, there will come a time when more and more servicemen choose to rent from the market on a value for money basis. The Commonwealth will then have to pay the States rents it cannot recover from servicemen.

9. It is this factor more than any other of the present scheme that has caused concern. Many improvements are suggested immediately by the evaluation but the Committee has gone further and asked whether programs of provision are necessary and desirable in the light of the overall policy objectives the programs are intended to serve. Its conclusion, as Chapter IV indicates, is that in many circumstances provision is not the best way of fulfilling the relevant objectives and that, therefore, a series of recommendations which would merely patch-up the present provision scheme would not go far enough. Nonetheless, under the Committee's proposal some need for what is called the 'exceptions' will remain.

10. Analysis of a more effective and more economical alternative to the provision of accommodation in Chapter IV is therefore central to the report. The scheme we recommend is fundamentally different from the existing scheme. Instead of building, buying or leasing a stock of houses for exclusive use by married service personnel, the Committee will recommend that servicemen be assisted, financially (by having their temporary accommodation and other costs covered) and physically (through an estate-agent type information service), to find their own accommodation, while also being given Rent Allowances to compensate them for the housing-related disabilities imposed on them by the Services' postings practices. It is recognised that special defence needs will require that some (on-base) housing be provided, and that it may not be possible in some locations (particularly in remote areas) for the private rental market to meet the full service housing demands so that here too some need for provision of accommodation may persist. In these cases (the 'exceptions') servicemen should receive the equivalent of the Rent Allowance in the form of a rent concession: that is they should pay a rent on Defence-controlled dwellings equal to the market rent on similar dwellings less the amount of the Rent Allowance allowed to servicemen who rent from the market.

11. To get to the end point of the exceptions being the only Defence housing stock it will be necessary, as the recommendations make clear, to go through an extended transition period during which, at first, planned construction and acquisition programs would be reduced to a minimum, and then slowly but progressively as much as possible of the existing defence stock would be sold or returned to the States. An appropriate level for the Rent Allowance would also need to be decided, while on remaining defence stock market rents would need to be determined so that appropriate concessional rents could be struck. At some stage the existing GRS would become unnecessary and undesirable.

12. Perhaps there are two points above all others which need to be appreciated to fully understand why these recommendations are made. The first is that while it is recognised that to some extent provision of accommodation may help to reduce some uncertainties for servicemen about where they might get their accommodation on being posted, it does so at the cost of severely limiting their range of choice over location, size, quality and price. Often they will have no choice at all, and we know that servicemen frequently complain about location and quality in particular. What is proposed is that the range of choice and degree of flexibility be increased wherever possible, while still compensating servicemen for the expenses involved in moving and in finding accommodation.

13. The second point is that while the Committee will recommend that servicemen should receive a guaranteed Rent Allowance (or rent concession) as compensation for housing-related disadvantages they suffer, it is the guarantee rather than the existence of an 'allowance' that represents the real change. This has been referred to in a previous paragraph. A level of subsidy that is clearly visible can be subjected to parliamentary and public scrutiny.

14. Once the level of concession is fixed the Committee will show that its proposal is no more costly than the existing scheme. What then makes these recommendations more attractive is increased effectiveness which is brought about because servicemen can exercise individual choice in the selection of their housing (this spills over into recruitment and retention) and short-term reductions in budget outlays which, at maximum, would be \$13m in 1977-78 and \$59m in 1978-79 to 1979-80.

15. In this inquiry the Committee has found it difficult sometimes to know when departmental responsibility ends and Ministerial responsibility begins. Failure to find the most economical ways of providing accommodation must, in our opinion, be attributed to Defence. However, some Cabinet decisions have lacked the clarity and precision necessary for efficient implementation of programs.

CHAPTER II

THE PROGRAMS

Introduction

16. This chapter outlines the important elements of the factual background to the present defence housing programs without attempting to cover all the details.

17. The general practice of providing housing for married servicemen arose out of the housing shortages of the mid-1950s. It is said that morale and re-engagement of personnel were affected by the shortages. A major effort was begun by the Commonwealth to obtain a stock of houses for the exclusive use of servicemen. Beginning with agreements reached with the States to build houses for defence use the housing programs have become fairly diversified. Housing is now being obtained from several sources; housing allowances are paid in addition to, and sometimes instead of, the provision of housing; and, as a more recent innovation, rents are set by a scheme designed to recover actual Commonwealth outlays while charging similar rents for similar houses to servicemen of similar rank irrespective of which part of Australia they live.

Commonwealth-State Housing Agreement (Servicemen)

18. Decisions on the present programs for providing married servicemen with housing were made as early as December 1950. In 1955 Cabinet endorsed the principle that the Commonwealth should ask the States to build these houses rather than build them itself. As a result the Commonwealth negotiated with the States for the Commonwealth-State Housing Agreement 1956 to include a provision whereby the States would build houses for allocation to servicemen. The houses were to be owned and maintained by the States but the Commonwealth was to be an assured tenant. The monies the Commonwealth advanced to the States to build these houses were repayable over a 53 year period with interest at 1% below the ruling long-term bond rate. The agreements of 1961 and 1966 also provided for servicemen's housing to be built by the States. The 1966 agreement included for the first time a provision that the defence houses should be built to the Service's Scales and Standards of Accommodation. Initially some States did not agree to build houses to SSSA because they felt the higher standards applied to defence houses would cause ill feeling among civilian families.

19. In 1972 the agreement on 'welfare' housing and servicemen's housing was split into 2 separate agreements, the latter being called the Commonwealth-State Housing Agreement (Servicemen) 1972. The 1972 Agreement raised interest charges to the full long-term bond rate and also provided for the upgrading of dwellings obtained under earlier agreements. This Agreement expired on 30 June 1976. A new agreement is being negotiated.

20. An important decision in relation to State built housing was made in August 1965 when Cabinet stipulated that CSHA should remain the main source of supply 'as far as practicable' (Cabinet Decision No. 1141 (GA), Exhibit 4, p. 41). The Committee was told that this phrase has been interpreted to mean 'all other things being

equal'. It does not restrict Defence from seeking the most economical ways of providing housing (Ev. p. 287).

21. EHCD is responsible for the implementation of the sub-program on CSHA(S) houses. Early in the calendar year it receives from Defence a preliminary program for the coming financial year. The State housing authorities are consulted to find out how much they can reasonably undertake and also to get some idea of cash requirements (i.e. budget outlays). They supply estimates of costs which include current land prices, construction costs and housing authority administration costs. This information is forthcoming about April. The housing program is then fitted into the total budget allocation for Defence as agreed by Cabinet.

22. By 1976 the States had built over 15 800 dwellings (CSHA(S) houses) which represent about 69% of the Defence housing stock.

Commonwealth-Owned Dwellings

23. The other main type of housing in the Defence stock is owned by the Commonwealth, on-base and off-base. On-base stock is built by the Department of Construction. There are at present over 3300 on-base dwellings which constitute about 14% of the total defence housing stock. A significant portion of this on-base stock consists of prefabricated dwellings many of which are considered to be close to the end of their economic lives. The Commonwealth also owns about 4000 off-base houses, i.e. 17% of the total defence stock. Some of these have been bought from the private market by the Department of Administrative Services and the rest have been built by the Department of Construction.

24. Of minor significance at present is 'Hirings'. This is stock leased for Defence use from the private market. The Department pays the rent, sub-lets these houses to servicemen and recovers that rent from the GRS. Responsibility for the implementation of the sub-programs on hirings and acquisitions lies with DAS. For acquisitions, officers of DAS in the States provide Defence with information on availability and costs of houses in areas selected by Defence. When decisions have been made on which houses to purchase, the work connected with purchase (e.g. contracts) is undertaken by DAS. The houses are part of the government stock and are maintained by the Department of Construction. Rents are paid to DAS by Defence which recovers the rents from the GRS.

Housing-Related Allowances

25. The defence stock is not large enough to house all married servicemen. The Temporary Rental Allowance is a housing allowance provided to married servicemen on posting when married quarters are not available³ and is intended to eliminate any disadvantage suffered by servicemen who rent on the private market as compared with those who pay rent for Defence stock dwellings. The allowance is the difference between the GRS rent of this stock and the market rate (with rental ceilings) and is based on group rank entitlement. A serviceman who refuses to occupy a defence

3. Because Defence wants to avoid over supply of Defence houses in the future, supply will be less than demand so that TRA will be paid even if building programs were completed.

house is not eligible to receive TRA as a rule. There were over 4500 servicemen in receipt of TRA at 1 September 1976. In the 1976-77 Budget \$5.7m was allocated for TRA which ranges from \$17 to \$35 a week, depending on area and rank.

26. Servicemen also receive a Temporary Accommodation Allowance. This is payable when servicemen occupy temporary accommodation (e.g. hotel/motel) while waiting for a defence house to be allocated or searching for private rental accommodation. The total cost of TAA in 1975-76 was \$2.8m.

27. A Disturbance Allowance is paid to servicemen as compensation for the expenses incurred for such things as necessary alterations to curtains and soft furnishings. The expenses of removals, which includes travelling costs from one post to another are also met by Defence.

28. While it is not an allowance, servicemen also receive housing loans at concessional interest rates under the Defence Service Homes Scheme. Our views on how this scheme can be used in relation to this Inquiry are at Appendix 2. Married servicemen who own a house in the locality of their posting are not entitled to a defence house or TRA.

Married Servicemen Who Make Their Own Arrangements

29. Not all married servicemen live in defence housing stock or rent from the private market and receive TRA. There are 10 350 married servicemen, or over 25% of the total, who make their own arrangements. Defence told the Committee that it has no detailed information as to why these servicemen make their own arrangements. One possible reason Defence gave is that some servicemen choose to leave their families at a particular location when they are posted to another location. Another is home ownership. This applies particularly to Naval personnel whose postings are of a ship-to-shore nature. Yet another reason is dissatisfaction with the quality of some of the defence housing stock.

Rents and the Group Rent Scheme

30. Rents of CSHA(S) and Commonwealth owned dwellings are determined by 'economic rent' formulae. The formulae consist of an annual charge sufficient to recover over 53 years the original capital outlay with interest at the rate applicable when the dwelling was being built, plus recovery in full of charges such as local government rates and an allowance for repairs and maintenance. Interest on CSHA(S) dwellings is now at the long-term bond rate,⁴ while interest charged for Commonwealth-owned dwellings is 5%. This latter figure is a weighted average of rates 1% below the long-term bond rate. The Committee notes that the economic rent formula for Commonwealth-owned dwellings is being reviewed by Government.

31. The Commonwealth pays the States the economic rents for CSHA(S) houses (Division 250 of the Estimates) and aims to recover these rents as well as rents for the Commonwealth-owned stock through the GRS.

4. In the 1950s and 1960s interest rates 1% below the long-term bond rate were applied (Ev. p. 238).

32. Details of the GRS are given in paragraphs 79 to 95. One of the major objectives of the scheme is to charge servicemen rents which do not vary between posts. Another aim of the GRS is 'to charge rates which are distinctly advantageous when related to comparable market values' (Ev. p. 49).

33. At present GRS rents are reviewed and varied only once a year. The first GRS review has now been completed and will result in substantial increases in service rents⁵.

Quality of Service Housing

34. The third report of the Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces said at page 2 that ". . . housing, including availability, locations and standards of Service married quarters . . . have been the most consistently recurring factors put to us as a cause of dissatisfaction with Service life⁶."

35. The Committee has no evidence that indicates whether the degree of dissatisfaction has been lessened. Several matters are worth repeating. The first is the poor standards of repair and maintenance of CSHA(S) houses which is even today a cause of complaint (Ev. p. 409) because servicemen believe they are not receiving value for the money they pay for repairs and maintenance which is included in rents. A serious inadequacy of service housing is that a substantial portion of existing stock is below established standards and some of the stock is indeed of very poor quality. This was evident to the three members of the sub-committee who inspected service dwellings in Sydney, Melbourne and Perth (the Hon. F. E. Stewart, the Hon. F. Crean and the Hon. R. V. Garland).

36. Other unsatisfactory features of service housing are:

- poor location, many dwellings being far away from any defence establishment;
- service enclaves, which result from the dwellings being grouped together;
- the disadvantages of high rise flats; and
- dwellings located within 'welfare' housing estates.

Cost of Present and Future Requirements

37. At 30 June 1976 the 'backlog' of houses required to satisfy immediate requirements was 2600⁷. There are plans to build or acquire 2100 houses in the next 3 years (1976-77 to 1978-79) and the remaining 500 presumably in 1979-80. The 1976-77 Budget estimate figures and those of likely expenditure (estimated at January 1977 prices) for the next three years are shown in Table No. 1.

5. The rents were to have been increased in April 1977 but these increases have been deferred following the announcement of the wage-price freeze on April 13 1977.

6. This report was presented to the then Minister for Defence in September 1971. It has not been published but is available at the National Library.

7. The difference between this figure and the 4500 servicemen on TRA is largely explained by the need to provide a margin for fluctuations in requirements. This is about 1740 houses and is known as the 'buffer'. In 1976-77, 520 houses were programmed for construction or acquisition so that the backlog now is 2080.

Table No. 1
EXPENDITURE ON HOUSING PROGRAMS (1976-77 TO 1979-80)
(\$ million)

<i>Type of Program</i>	1976-77	1977-78	1978-79	1979-80
CSHA (a)	36.2	30.5	27.7	28.4
Department of Construction (b)	0.1	1.2	2.9	0.3
Department of Administrative Services (c)	3.1	5.4	4.3	1.9
TRA (d)	5.7	5.6	5.9	5.5
TOTAL	45.1	42.7	40.8	36.1

(a) Division 248 of estimates; advances to the States

(b) Division 245 of Estimates; on-base dwellings

(c) Division 252 of estimates; acquisitions

(d) Division 230 of estimates

Sources: Exhibits 6, 7 and 40 (b)

38. It is likely that further cash outlays would be required for the backlog to be paid. By this time there would be an urgent need to replace old sub-standard stock which is a constant source of complaint. Rectification of these matters is part of the strategy for the future (Ev. p. 215). The report of the Defence Facilities Policy Committee on Defence Housing Policy says there should be a program to progressively replace almost 2400 dwellings (temporary and prefabricated dwellings, CSHA(S) flats; Exhibit 40 (j) p. 313). When this is completed it would be necessary to replace the remaining prefabricated dwellings (1500) and flats (790). The Committee estimates that it would cost about \$260m (1975-76 prices) to clear the backlog and replace all the poor quality houses (i.e. 2080 plus 4690 dwellings multiplied by \$38,500 which is the average cost of a CSHA(S) house). This would take at least a decade to complete.

39. These are indeed very substantial outlays. Their prospect compels a thorough examination of whether housing is being provided in the most economical ways, what purposes provision programs are intended to serve (program objectives) and in particular whether these purposes can be served just as effectively and at less cost by alternative methods or whether they are needed at all.

40. It is to these important matters that the Committee now turns its attention.

CHAPTER III

A CRITIQUE OF EXISTING PROGRAMS

Introduction

41. The objective of the present chapter is to provide a critical appraisal of the present programs which provide accommodation for married servicemen. To set a theme for the evaluation Defence informed the Committee that the present programs are devised so as to attempt to provide a maximum number of houses for a given sum of money (Ev. p. 287). While this is a statement of current objectives (assuming that certain minimum standards are set for the homes provided) the information available clearly establishes that accommodation has not been economically provided. Moreover, many of the weaknesses in the existing programs are so obvious that they should have been acted on earlier.

42. The evidence establishes that:

- many houses are being constructed by the States when private builders could have built these houses at significantly lower costs;
- acquisition of many more houses would have resulted in further reductions in outlays; and
- the failure to maximise hirings (i.e. leasings of private accommodation) has prevented outlays from being held to their lowest level.

43. In other words, Defence has failed to establish the best mix of alternative sources of accommodation at least in recent years and hence the minimum of outlays for a given stock (or maximum number of houses for a given outlay) has not been achieved. In addition to these factors there are aspects of present standards and procedures for dealing with long-term unoccupied dwellings that raise costs by further unnecessary amounts.

44. Superficially, it is tempting to argue that much of this is of little consequence since in the long-run (over 53 years as a rule) the Commonwealth recovers its initial outlays with interest now at the long-term bond rate. But to argue this way is to miss the point that it is servicemen who ultimately meet the repayments, and under present rent-setting formulae excessive outlays by the Commonwealth imply service rents which are higher than otherwise. Indeed it seems to the Committee that the proposed average rent increase of 40% this year in the GRS has been caused partly by the uneconomic nature of previous and continuing housing provision decisions.

45. It is not possible, in short, to look at the present arrangements relating to the provision of accommodation for married servicemen without some concern. Many improvements are, of course, immediately suggested by the evaluation. The attempt to undertake a form of what might be called a cost-effectiveness analysis⁸ of the programs of provision prompted us to go further and ask whether provision itself was necessary and desirable in the light of the overall policy objectives the programs are

8. The Treasury definition of cost-effectiveness analysis (Ev. p. 338), when applied to servicemen's housing, requires first the establishment of standards (objectives) which would include physical standards and other factors; and then the selection of the lowest cost alternatives which conform to the standards set.

intended to serve. The conclusion as the next chapter more fully indicates is that in many circumstances provision is not the best way of fulfilling the relevant objectives and that, therefore, a series of recommendations which would merely patch-up the present provision scheme would not go far enough. Nonetheless, under the recommendations in the next chapter some provision for what are called the 'exceptions' stock will remain, and the present chapter has important lessons for the organisation of those exceptions. The relevant recommendations concerning the exceptions, however, have been incorporated into Chapter IV.

Lowest Cost Alternatives

(a) Commonwealth-State Housing Agreement (Servicemen)

46. About 70% of the defence housing stock has been obtained through CSHA. Table 1 shows that CSHA will be the main source for defence housing in the next 3 years. Defence told the Committee that the agreement should remain one of the more important means of obtaining new houses (Ev. p. 277).

47. The Committee has good reasons to doubt the desirability of this continuing emphasis on agreement with the States. The Committee obtained information on building costs for the capital cities from several builders and formed the opinion that private enterprise can apparently build houses for the Commonwealth at a lower cost than State housing authorities.

48. In this financial year (1976-77) the State housing authorities will commence construction of 422 houses at a total cost of \$16.2m. A comparison of the costs of 332 of these houses with the costs supplied by one of the private builders gives the following results:

No. of houses—332

State housing authorities costs—\$13.058m

Private builder's costs—\$12.049m

Savings—\$1.009m.

49. The figures supplied by the private builder include land costs and the cost of building the houses. The Committee has allowed for administrative costs the Commonwealth would incur if the houses were built by private enterprise. Details of the calculation are given at Appendix 3. The Committee notes that the savings of \$1m would be realised progressively over several years. Private builders would not be cheaper in all cases; for 28 houses in Puckapunyal (Victoria) and 23 in Kwinana (Western Australia) the States costs are lower and these have not been included in the above figures⁹.

50. On the basis of the figures in the preceding paragraph there is a case for private enterprise to build at least some defence houses for the Commonwealth. The Committee concludes that any plans for future construction should also include direct consultation and negotiation with private builders.

(b) Acquisitions

51. Another way in which defence housing can be provided more economically is by placing greater emphasis on acquisitions. There has been an increase in acquisitions. In the 3 years 1973-74 to 1975-76 a total of \$2.1m was spent on hirings and

9. The other 39 which make up the total of 422 are 4-bedroom houses for which costs are not available from the private builder.

acquisitions whereas in 1976-77 the amount allocated rose to \$3.1m. Likely expenditure figures at Table 1 show further increases. But despite this increase, Defence is of the opinion that acquisitions would constitute a fraction of what it would hope to obtain by agreement with the State housing authorities (Ev. p. 111).

52. Ninety-eight eight houses are to be acquired this financial year. More than half of these (54) have been purchased in New South Wales and Queensland. If these 54 houses were obtained under CSHA they could have cost a further \$250,000.

53. Defence is to be commended for increasing acquisitions. Yet more could be done. The 1976-77 CSHA(S) program for construction of new dwellings includes 40 houses for the Army at Liverpool at costs ranging from \$41,900 to \$44,300 a house. Some of these houses could have been purchased at a lower cost (Exhibit 31) and the cash outlays kept at the same level by reducing the size of the CSHA(S) new construction program.

54. It is also evident that not all the relevant factors are being taken into consideration when decisions are made as to whether acquisitions or new construction are the more economical way of providing housing. Because new construction programs are not completed in the year in which they are commenced the ultimate cost of a house is much greater than the original estimated cost. While these houses are being built the Commonwealth pays servicemen TRA of about \$1,250 a year on average. These factors should be taken into consideration when the defence housing program is being formulated because this could result in significant cost savings.

55. The Department of Finance said that the fact that acquisitions cost less than building new houses is a transitory phenomenon (Ev. p. 290). If this is the case it underlines the importance of maximising this method of obtaining housing while favourable conditions last.

56. There are hidden costs associated with acquisitions, e.g., searching for houses that comply with SSSA, inspections, processing of contracts. Some of these costs have to be incurred anyway if one is to obtain the most competitive prices by 'shopping around'.

57. The possibility of increased acquisitions and construction by the Commonwealth raises two issues. The first is whether the Commonwealth would want to be a large public sector landlord of residential property. Obviously, the costs of ownership should be taken into account when evaluating alternatives. If the government wants to obtain the lowest cost housing stock it must accept ownership as a consequence.

58. The other issue raised by Finance and EHCD is the undesirability of situations where the Commonwealth and States would be in competition. The Committee finds it difficult to understand why such competition must always increase prices because there would hardly be any call on additional resources, simply a redirection of existing resources between private, State and Commonwealth activity.

(c) Hirings

59. A further method of obtaining defence housing is hirings. A hirings system is the method of providing housing at least cost because there is no capital expenditure. The Commonwealth, through the Department of Administrative Services, could lease houses on a long term basis thereby making the Commonwealth an assured tenant. These houses would then be sub-let to servicemen and the rents the Commonwealth pays would be recovered in full from the GRS.

60. Defence said that hirings represent a very small proportion of the housing stock and that hirings would continue to be of marginal significance (Ev. pp. 145,147). In these circumstances the Committee attempted to find out why greater use was not being made of the hirings system.

61. The major reasons given were difficulties in obtaining long-term leases and in finding houses that meet SSSA standards, added costs if these leases are not renewable, increased administrative costs of searching for such housing and the present shortage of rental accommodation (Exhibits 31 and 33).

62. Inquiries show there should not be many difficulties in obtaining long-term leases when rental accommodation is available because these leases give the landlord guaranteed tenancies and the certainty of rent payment for the period. There would also be no bad debts with service tenants.

63. *The administrative costs of finding suitable housing would increase if more hirings are sought but on the other hand Defence has said that it should be possible to obtain favourable rentals. There would be problems connected with renewing leases if the properties are owned by persons who will be returning to reoccupy the dwellings. This would not generally be the case where the properties are owned by persons or organisations who invest in rental housing. It is a case of searching for a particular set of conditions that make hirings a practical proposition.*

64. Defence has missed opportunities for increasing this economical source of housing. This has resulted in GRS rents being higher than they would otherwise have been since many of the defence houses have rents greater than market rents.

65. It is true that private rental accommodation is difficult to obtain at present. *Had concerted efforts been made in the past to increase hirings the number of hirings would have been greater and budget outlays for defence housing correspondingly less. For every 100 houses obtained by hirings rather than new construction budget outlays are reduced by close to \$4m. As in other contexts that are discussed in the next chapter, Defence seems to ignore the fact that hirings, though not instantaneously and perfectly responsive to demand, is nonetheless influenced by it. When it is known that the Commonwealth is seeking long-term leases then a greater number of these leases would become available. New building for such purposes by private enterprise is a possibility.*

66. Efforts to increase hirings in the past would have reduced budget outlays for housing in the Australian Capital Territory (A.C.T.). The Services have been allocated about 900 government houses in the A.C.T. Increased hirings would have either reduced outlays required to build these houses or reduced the waiting period for persons eligible to rent government houses in the A.C.T. The Minister for the Capital Territory has announced the intention of the Government to charge A.C.T. tenants market rents. The full market rent will be charged in the first three months of the financial year 1977-78 (Ev. pp. 346, 347). When this happens there would be little or no advantage for Defence to obtain houses from this source rather than inquiry from the market.

67. The conclusion that this line of enquiry leads us to is that, despite the assertion in paragraph 41, best use has not been and is not being made of limited resources in the provision of housing for married servicemen. There is still undue emphasis on CSHA, insufficient attention on acquisitions and the virtual neglect of other methods such as hirings and the use of private builders. It is difficult to quantify the reductions in budget outlays that would result from use of these methods because they

are all alternatives to CSHA. What is required is a more systematic procedure that would permit the selection of the lowest cost alternatives, so that in any one year the mix of the different sources used would be based on market conditions in the various locations.

(d) The Influence of Standards

68. Whatever source is used to obtain housing for servicemen, the cost of obtaining it depends crucially on the standards of housing required. At present physical standards for housing are specified in the SSSA and incorporate factors such as size (102 to 130 square metres, depending on the rank-entitlement), fittings (including built-in wardrobes and separate shower recesses), and other features such as carports and lock-up sheds.

69. Changes in standards are obviously required from time to time but service expectations should not be allowed to exceed generally accepted community standards,¹⁰ though we acknowledge that the service postings policies create some special needs. It would seem to be important to ensure that the committee of officers from the Departments of Defence, Finance and Construction responsible for reviewing the standards are required to consult with a body such as the Real Estate Institute of Australia.

70. One particular example of the way in which standards can affect costs which has been brought to our attention is the requirement that in some areas the buildings should be 'high set' (i.e. with floor level well above external ground level). One firm informed the Committee that it is building houses in Townsville for defence use and that savings of \$3,000 to \$4,000 a house could be made, without any real quality loss, by building low-set houses (with floors at ground level). It seems clear that this at least should be subject to careful review.

71. Another example of a change in standards that has been suggested is that villa-style (i.e. medium density) housing be accepted as fulfilling service standards, since without any significant loss of quality of the housing itself significant savings on land costs would be forthcoming and perhaps also savings in relation to the building of carports, sheds etc (or lower purchase prices paid for acquisition). In low concentrations so as to avoid the creation of enclaves servicemen might often appreciate this style of house and Defence might be able to significantly extend its acquisition program by accepting such housing on their behalf.

72. Just as importantly, however, standards should not be applied too rigidly, particularly when comparing plans for new construction with alternative possibilities such as acquisitions and hirings. For example a house available for rental on a long-term basis should not be excluded from the list of alternatives because the bathroom does not have a separate shower recess. What is required is some flexibility, some trade-off between standards and costs at the margin, and not the acceptance of cost alone as the determinant of acceptability. The dangers of setting standards too low are too evident to ignore particularly when the poor quality of much of the housing stock is a persistent source of complaint among servicemen.

10. They not be allowed to fall below community standards either, as probably occurred in the 1960s when the standard sizes were reduced by Ministerial decision only to be increased again in 1972, thus leaving a number of 'below standard' houses.

73. The poor quality of service housing (see paragraphs 35 to 36) has resulted mainly from the absence of adequate standards over a long period of time. The evidence indicates that this problem, which is at least partly the result of Ministerial decisions, (see footnote 10) is being overcome though at an added cost. Defence is now very conscious of the need to avoid the mistakes of the past.

(e) Unoccupied Dwellings

74. What is recognised is that poor standards not only lead to undesirable dissatisfaction, but sometimes have explicit budgetary consequences, as occurs for example when servicemen persistently refuse to occupy particular dwellings.

75. Accepting Defence's definition that prolonged vacancies are those which extend over 2 months or more, the cost to revenue of prolonged vacancies in 1975-76 was nearly \$140,000. At September 1976 there were 134 dwellings with prolonged vacancies, 81 representing those for which servicemen had refused a tenancy. While the financial data and the physical data cannot be directly compared, the major problem concerns Housing Commission flats (Ev. p. 17) on which the average economic rent is currently \$26 per week.

76. It is very necessary to introduce procedures that can isolate the unoccupiable dwellings (e.g. high rise flats) which should be returned to the States as quickly as possible for welfare housing. If this means that the States will pay less in interest because the rates are lower for welfare housing, this is a cost that has to be accepted for the bad decisions of the past (but see paragraph 147 for further discussion of this matter). It makes more sense to do this than to have servicemen unfairly penalised and needy people denied access to dwellings which servicemen decline to occupy.

77. Another peculiarity of the present arrangements is also worth noting. While unoccupied dwellings are paid for from general revenue and not charged to GRS, the economic rents charged by the States include an allowance for bad debts and vacancies. Thus servicemen are charged for something that the States do not incur since the Commonwealth guarantees payment. This element of double-counting must be eliminated by having the relevant element removed from the States' rent formulae. The Committee notes that this is being covered in current negotiations with the States.

Rents

78. The argument, so far, is that budget outlays are higher than what they should have been because the most economical sources for obtaining defence housing have not been used. This has its effect on rents which are, as a consequence, also relatively higher.

79. Until 15 April 1976 servicemen paid either the so-called economic rental or 15% of salary, whichever was the lower for the house they occupied. Had this scheme continued it would have resulted in an explicit rent subsidy of close to \$5m in 1975-76 (Exhibit 37 (f)), because economic rents on many dwellings would have been well above the 15%.

80. This method of fixing rents had many undesirable features. Older dwellings had relatively low rents while new dwellings attracted much higher rents because, as previously stated, economic rents are based in part on the capital costs of the dwelling and the interest rate prevailing at the time of construction. Rents varied significantly and were not consistently related to the standards of dwellings.

81. After intensive study by Defence the GRS was introduced in April 1976. Under the GRS the defence stock was divided into 6 groups, each reflecting differences in size and standard of dwelling. These different categories were then related to the rank of the serviceman (group rank entitlement) and rents were fixed so as to reflect 'fair' differences between size and quality on the one hand and rank and pay on the other. The result was that a serviceman paid the same rent, based on his group rank entitlement, in any part of Australia.

82. The GRS has been described as 'equitable, predictable, universal, easily understood and simply administered' (Ev. p. 49).

83. The Committee is of the opinion that the GRS has many desirable features not the least being the averaging of rents which has resulted in a more equitable rent structure. Defence is to be commended for recognising and attempting to remedy the previous problem. It is apparent, however, that the scheme has problems of its own though not all of its own making.

84. The Committee was told that when the scheme became operative in April 1976 the rent levels were determined in such a way as to return to revenue, in aggregate, the full costs of economic rentals calculated on 18 December 1975. Rents under the GRS were to be reviewed and varied only once a year. The review was to take into account all the increases that had taken place during the operational period (e.g. increases in local government rates or higher than average rents on new dwellings). These arrears which represent, in part, payments made by the Commonwealth were to be recovered in the GRS rents of the next period.

85. As a result of the first review of rents completed early this year, GRS rents will increase by 40% on average. This increase should recover the deficit of over \$2m which has accrued under the scheme. Further significant rent increases can be expected next year to recover the deficit which has been accumulating since the rent review commenced in November 1976¹¹ and cover other cost increases.

86. While the available information does not enable quantification of the causes for the rent increases, 3 distinct factors can be isolated, namely:

- increases in charges such as local government rates which are automatically passed on under the economic rent formulae,
- increases in rents of existing stock which has been renovated,
- higher than average rents of new stock because land and building costs and interest rates have been rising over time.

87. The first factor—increased rates and charges—evidently affects all dwellings, and is clearly a cost which Defence could not have avoided. However, some of the cost increases which have occurred for the second and third reasons could to a substantial extent have been avoided. In relation to the second factor, it is true that up to a point, all older houses will require renovation but it seems clear that much of the updating of the defence stock that is occurring and will continue into the distant future, is a reflection of poor earlier decisions concerning standards as much as a reflection of increased community expectations of housing standards. Though now irreversible, those earlier decisions carry important lessons for the future.

11. There has been no Government announcement on whether the loss to revenue that will result from the decision not to increase rents for 3 months will be recovered in future rents.

88. However, it is in relation to the third factor that the major avoidable costs occur. Whatever source of accommodation is chosen by Defence to meet its future additional requirements one would expect that, in inflationary periods at least, the rents on the new stock would be higher than the average of rents on the existing stock. But by failing to choose the most economical ways of providing that accommodation Defence has ensured that rents on new stock are much higher than they need to be. Market rents (i.e. the cost of comparable dwellings available for rental on the private market) are, and have been since 1974-75 substantially lower than economic rents on new dwellings, particularly those obtained through CSHA(S). There are about 500 houses in the defence stock with economic rents over \$75 a week, including six with rents of \$102 a week. Based on the many sources of evidence made available to us, and as agreed by all participants, rents of \$45-\$50 a week (perhaps \$60 in Sydney) would by comparison represent reasonable estimates of market rents.

89. It is clear that the addition to the defence stock of houses with rents significantly higher than market rents is therefore a factor which could explain why GRS rents will increase by as much as 40% in 1977. No serviceman who rents from the defence housing stock would actually pay a rent of \$102 a week. There is an averaging process in GRS which spreads the impact of these higher rents on new houses across the entire stock so that the rents actually paid are always less than economic rents on new stock.

90. In this process the GRS is disguising a misallocation of resources—the misallocation involved in building instead of renting or buying. But the crucial point in terms of the continued viability of the program is the fact that the cost of this misallocation is being borne predominantly by servicemen. The fact is that the gap between GRS rents and market rents has been closing, and closing at a fairly rapid rate. It is this fact if it continues which contains the seeds of future crises. Servicemen will continue to occupy most of the present stock of housing only for as long as the rents on service houses remain significantly below market rents on similar houses.

91. Defence has attempted to convince the Committee that the possible crisis will not, in fact, occur and that the gap between GRS rents and market rents will not only not completely close, but will remain significant. While acknowledging that it is very difficult to predict how GRS rents and market rents will behave in the future, we are not entirely convinced.

92. Defence has argued that on the basis of future construction programs adding 3715 dwellings to the stock, while disposing of some 2000 poor quality dwellings, the GRS rents would rise to an average level of \$34 a week, a figure 'well below average market rentals' (Ev. p. 451). There are, several reasons for doubting this conclusion's total accuracy. For example, the figure does not allow for rates, repairs and maintenance charges and so on which are added into the economic rent formula, though these might, admittedly, add about \$1 per week to the average quoted. More significantly, however, there is little reason to believe that building costs, and all other charges, will remain unchanged over the period envisaged (about 5 years) or that market rents will change much either, but on Defence's own evidence (Ev. p. 455)¹² they have hardly

12. A 610 addition has now been allowed for furnished accommodation in some areas including Sydney and Melbourne. If this is the result of actual rent increases that have occurred it would be about a 15 per cent-20 per cent increase in those cases. We are inclined to think however, that this increase appears to reflect improvements in previous data which means that rents in these areas were previously underestimated.

changed at all in the last 12 months. Indeed, overall it is difficult to reconcile what Defence are suggesting here with recent experience. The estimate of an average GRS rental of \$34 implies an increase of around 30% spread over 5 years, yet in a single year the GRS rents have been increased by 40%.

93. The possibility of judgments differing is obvious in this area, but the issue is too important to be resolved by guesswork alone. The Committee is not criticising GRS itself but is pointing out the logical consequence of the continuation of existing trends. That is, there will come a point where a serviceman will prefer to pay market rent in order to get a better house, or a better location, or a house with different characteristics, rather than accept the defence house with a lower rent. No one knows at what point this shift might occur, but as the gap between GRS rents and market rents narrows the probability of increasing numbers of servicemen choosing to make their own arrangements increases as Defence itself has admitted (Ev. p. 216). If servicemen opt out of the provision scheme, the Commonwealth will face a huge 'dead rent' bill which it cannot recover from GRS.

94. The conclusion that a crisis is possible has been based on a recognition that the gap between market rents and GRS rents is of critical importance to the viability of the whole scheme of provision of accommodation. In fact in the next chapter we shall point out that this 'gap' is really a rent subsidy, though one paid in implicit form, and if the present scheme were to continue it would be desirable to calculate more rationally and carefully the appropriate level of that subsidy. This conclusion, however, stems from a recognition that not only is a subsidy necessary, but that it is desirable in the sense that servicemen ought to pay subsidised rents in recognition of housing-related disabilities they suffer. Implementation of an explicit calculation of the rent subsidy (or concession) would, alone, serve to improve the viability as well as the rationality of the present scheme. More will be said of this in the next chapter.

95. Whatever happens in the future, increases of 40% in GRS rents in a single jump should not be permitted to occur, and the simplest means to overcome this would be to have more frequent reviews than the present once-a-year. The Committee favours having rents reviewed quarterly, not only because it would reduce the possibility of such large jumps in rents, but also because it would reduce the average period for which the GRS receives an effective interest-free loan from general revenue to cover the accumulating deficit during each operating period¹³.

Conclusion

96. While a critical examination of the programs shows that accommodation for married servicemen is not being provided in the most economical ways, the Committee will not make any relevant recommendations at this stage of its report. Examination of the programs has raised the much more important question of whether there is a more economical and effective alternative to the provision of accommodation. The next chapter examines this question and any recommendations that could have resulted from the discussion up to this point are taken up in later paragraphs.

13. Although it is not crucial to what is said in the next chapter, the Committee points out that this interest free loan is only one of a number of costs to revenue of the scheme of provision of accommodation that is not recovered from servicemen. The fact that CSHA formulae for many years allowed capital to be recovered with interest at 1 per cent below the long-term bond rate, and that the Commonwealth's own formula still does so, involves costs of over \$1m. a year that are not recovered at present. So too, does the fact that rents on unoccupied dwellings are charged to general revenue.

CHAPTER IV

A MORE EFFECTIVE AND MORE ECONOMICAL ALTERNATIVE TO THE PROVISION OF ACCOMMODATION

A Fundamental Problem with Provision

97. The programs for providing accommodation for married servicemen commenced some 20 years ago when there was apparently a fairly severe housing shortage. Perhaps it is reasonable to suppose that only a policy of provision would have sufficed at that time. Over the years the Commonwealth has acquired a defence housing stock which inevitably has a fixed set of characteristics—size, location, quality etc. Satisfying servicemen's housing needs from such a stock will be fraught with difficulties always and will be a potent source of complaint among service tenants.

98. It is not hard to see why. The defence housing stock varies in age, location and other aspects of quality. One must assume that service families also vary in size and more generally in preferences for housing. There is therefore the constant probability that the currently vacant defence stock will fail to match individual requirements and the equal probability of families with similar housing preferences renting defence houses of different quality because of the 'luck of the draw'. This last point loses some of its relevance if there are programs to upgrade or replace part of the existing stock. This is very costly. In any case, since the housing standards of the community have increased and may continue to increase, upgrading and replacement programs will be continuous. And so the source for discontent will continue, despite ever increasing expenditures.

99. An obvious, and we believe more satisfactory, alternative is for married servicemen to rent from the market which, with its wider selection of different qualities of housing, should be in a better position to satisfy individual preferences. The market, though not perfect, can offer servicemen accommodation of varying quality and location at different prices. Thus it offers servicemen the opportunity to trade-off the costs of accommodation against location, size and quality in a way that he can never do with the service provision scheme except by opting out of that scheme.

100. This raises an obvious question. Since servicemen complain about the quality of defence housing and since the market can meet their requirements more effectively than the limited defence stock, why do not more servicemen go out into the market? The answer is given by Defence when it says that defence housing stock rents are lower than market rents. This in turn raises another question. If the only way of providing accommodation with its attendant problems is to give servicemen a rent concession (i.e. the difference between market rents and what they actually pay) why not let them rent on the market and give them a rent allowance comparable in amount with the rent concession so that the problems of provision are largely overcome?

101. This question cannot be resolved without examining the objectives or the purposes of providing accommodation for married servicemen.

The Program Objectives

102. At no stage during the Inquiry was the Committee given a clear statement of the *raison d'être* for the programs. Defence said that no such public statements had been made (Ev. p. 263). The Secretary of the Department of Defence gave the Committee his statement of government objectives, which reads as follows:

“(that) governments (should) . . . regard provision of adequate housing in the right place and at the right time to servicemen as quite fundamental in the retention of a volunteer service at the minimum and certainly essential to the retention of a volunteer service that has good morale and is happy in the service.” (Ev. p. 61).

The Secretary also emphasised that he was discussing ‘what is expected of a just employer’.

103. The main program objectives therefore appear to contribute to the attraction of persons to the Services and their retention in the Services and to meet the obligations of a ‘just employer’ in relation to the peculiar circumstances of service life.

104. The housing programs are thus inevitably related to the postings policies applied to servicemen. The three Services explained the reasons for postings (e.g. service needs, resignations, promotions) and assured the Committee that they attempted to minimise the number of postings.

105. The relation between provision of housing and the attraction and retention objective requires close examination and assessment because of changed circumstances since the mid 1950s. Since then, and particularly since 1970 when the inquiries into pay and conditions began, conditions of service have changed significantly. The more salient features are that government has:

- accepted the final report of the Committee of Inquiry into Services’ Pay (the Woodward Report) and introduced principles and concepts of pay fixation compatible with those applying to the general community¹⁴;
- adopted the recommendations of the Joint Select Committee on Defence Forces Retirement Benefits Legislation¹⁵;
- extended the Defence Service Homes Act (a low interest housing loan scheme) to all permanent members of the Defence forces¹⁶;
- provided a Re-engagement Bounty of \$1,000 to eligible members prepared to undertake a further 3 years of service¹⁷;
- compensated the general disabilities of servicemen with a Service Allowance of \$950 a year¹⁸ in accordance with the inquiries’ recommendations.

106. The Defence Report 1973 says at p. 17 that ‘the improvements in the conditions of service have led to very much improved re-engagement rates in each of the Services’. This statement was based on 1972 and 1973 figures. Re-engagement rates from 1972 through to 1976 show further improvements (Exhibit 37 (c), i to iii).

14. Defence Report 1973; 1973—Parliamentary Paper No. 257, p 15.

15. Ibid. The Select Committee said at p. 17 that the scheme is required if the Commonwealth ‘is to maintain recruitment at a planned level and to maintain its quality’.

16. Ibid, p. 16.

17. Ibid.

18. Exhibits 20 and 40 (c).

107. Turning to the subject of attracting persons to the Services the Committee notes that recent recruiting publications refer to low interest housing loans under the Defence Forces Homes Act. They make no further mention of housing (Ev. p. 58). The Defence Reports of 1975 and 1976 indicate that the total strength of the Services was only marginally below target levels¹⁹.

108. Yet over 80% of the defence housing stock is below standard,²⁰ and servicemen complain about the quality of this housing. The evidence in the preceding paragraphs is therefore strongly suggestive that the provision of housing in itself has little if anything to do with the program objective of attraction and retention. If the total strength of the Services falls significantly below target levels the solution is to review the other programs and increase the Re-engagement Bounty for example rather than to continue housing provision programs which have lost their relevance.

109. Indeed Defence appeared to place greater emphasis on the concept of a just employer being required to provide housing because of circumstances peculiar to service life—the requirement that the Service member accept orders and live where he is told to live' (Ev. p. 8)

110. Does justice really require a policy of provision of accommodation for married servicemen from a stock controlled by Defence for exclusive use by servicemen? An employer who expects—demands—that his employees frequently move to new locations would certainly be unjust if he failed to offer compensation for the extra costs they incur in that process. He would also be unable to retain quality staff. But servicemen are compensated for the costs of moving to new locations. The Commonwealth pays their travel costs from one post to another, meets the costs of removing and storing household effects, gives them a *Disturbance Allowance* (compensation for the costs of alterations to soft furnishings etc. in moving house), a *Service Allowance*²¹ and a *Temporary Accommodation Allowance* which covers the cost of hotel/motel accommodation while the serviceman is searching for private housing.

111. The Committee is of the opinion that the employer who assists his employees to find accommodation and meets the costs, including those of temporary accommodation that occur in this process, can be regarded equally as just as the employer who provides housing from his own stock. Indeed both sides may be better off under a scheme of assistance rather than provision. The employer who assists his compulsorily transferred employees to find accommodation frees scarce capital while his employees have a better chance of finding housing which matches their individual preferences, provided that a reasonably active accommodation market exists.

112. In the case of married servicemen, this assistance could include an estate agency service which would help them to find private rental accommodation. It would provide information on houses in locations in close proximity to the place of work, standards and rents and this information would be up-dated regularly for the convenience of servicemen. We would expect the costs of this scheme, if any, to be borne by the Commonwealth, but we would also expect that to a substantial extent the costs

19. Defence Report 1975; 1975—Parliamentary Paper No. 229 p. 19 and Defence Report 1976; 1976—Parliamentary Paper No. 413 p. 20.

20. 19 000 of 22 800 are below SSSA. Some have minor, others major deficiencies (Exhibit 40 (j), p 313).

21. While Defence disputed that any part of the Service Allowance was paid for a housing-related disability the words of the Woodward Report speak for themselves—'compensate for the requirement to submit to discipline and control . . . such as where and how to live . . .'; *Financial Terms and Conditions of Service for Members of the Regular Armed Forces*, Final Report of the Committee of Inquiry, paragraph 316, 1973—Parliamentary Paper No. 25.

would be minimised by the probable willingness of private estate agents to compile the relevant information when they appreciate the advantages to them.

113. The general conclusion that the Committee has reached here is that neither the attraction and retention objective nor the just employer concept implies or requires programs of provision as such. Indeed, what we envisage for the future is an abandonment of provision of accommodation as the central thrust of Defence housing policy, and its replacement with a policy of assistance to servicemen to find accommodation, and compensation for cost-disabilities they face. Only where there is a special defence requirement for on-base housing, or where the housing market could not physically cope with the required numbers of dwellings (e.g. remote areas) would exceptions to the principle of 'no provision' be accepted. It is impossible for us to go any further with our recommendations, however, without directly confronting the question of rent concessions and allowances that we have alluded to at several earlier points.

Rent Subsidies

114. At present servicemen who rent from the Defence stock receive an implicit rent concession or subsidy because the rents they pay are below market rents. The difference is due in part to the fact that rents on houses in the defence stock are determined by 'economic rent' formulae based on historical costs (Exhibits 10 and 11). All servicemen who cannot be allocated a Defence house and who therefore rent on the market receive a Temporary Rental Allowance to compensate for the fact that the rents they must pay are above GRS rents. In short, those renting Defence stock housing receive an implicit rent subsidy while those who rent on the market receive an explicit rent subsidy.

115. Despite contrary views (Ev. pp. 232 to 261) the Committee is of the firm opinion that an implicit rent subsidy does exist as the remainder of this paragraph will clearly establish. These remarks are prefaced with the observation that, through allowances or explicitly calculated concessions, servicemen should in effect pay rents which are below market levels (for reasons we discuss later) but that the form and level of these rent subsidies should be subject to careful consideration. A persistent failure on the part of some of those who discussed the issue with us to appreciate our belief in the desirability of an allowance might be held at least partly responsible for the argument aroused on this matter. It seems clear however, that if governments consider the market price of a good or service to be inappropriate it is open to them to 'regulate' the market price by legal or fiscal means. But when the market provides a good or service at a market price or regulated price and governments also provide the same good or service to a section of the community at a lower price, then it must surely follow that this group is receiving a special benefit—a concession—and that government revenue for other purposes would be higher if the special benefit were eliminated. Such is clearly the case with rents for married servicemen.

116. Finance suggested that the rent concession could be regarded to be roughly equal to the average servicemen on TRA receive (\$24 a week). Ideally if market rents could be identified for Defence housing stock the amount of the concession could be determined directly. But since this work cannot be done for this report another method based on actual TRA rates has been used. This calculation shows that in 1976 the rent concession ranged from \$22 a week to \$27 a week on average for servicemen

renting Defence housing. When the GRS rents are raised to their new levels the concession will fall to between \$14 and \$20 a week. The method of calculation is detailed at Appendix 4.

117. On the basis of these figures the total rent concession (excluding TRA of \$5.7m) is in excess of \$25m though with the proposed new rents it could fall to \$17m. Evidently the question is whether married servicemen should receive a rent concession of this magnitude. Servicemen, whether married or not, suffer housing-related disabilities as a result of frequent postings. The Defence Service Homes Scheme provides servicemen with housing loans at concessional interest rates, the basic purpose being to compensate servicemen who are placed at a disadvantage compared with the rest of the community in acquiring a home. The Service Allowance provides marginal compensation for other features of service life, some related to postings practices. *However married servicemen face other housing-related disabilities which would remain uncompensated if they did not receive some form of rent subsidy.* First, even if they acquire a house and let it on the private market on being posted, there are additional costs of maintaining this house which they probably would not have incurred if they had lived in the house all or most of the time. Second, frequent postings and therefore the need to lease more frequently expose married servicemen to more numerous rent increases than the general community. Third, they have to pay bond money.²² Fourth, although the market is a better alternative than the Defence stock, servicemen cannot always take full advantage of it to get the best quality in terms of location and so forth. Other people who do not move around so much can be more selective knowing that once they make a final choice they will not be compulsorily moved. And finally, frequent postings result in additional costs because of such things as deterioration of equipment, the need to pay for many telephone connections and the implications of changes of children's schools. Taking all these factors into consideration the Committee believes that it is appropriate for married servicemen to receive a rent allowance or a rent concession as the case may be.

118. In fact the Committee would go as far as to suggest that if the uncompensated housing-related disabilities can be covered by the Disturbance Allowance, as the foregoing suggests, then there may be a case for reviewing and increasing this allowance rather than for giving married servicemen a rent allowance.

119. Despite the fact that it is of significant size the present rent concession or subsidy is not appropriate. The core of its problem is that it is at present a purely implicit subsidy; it emerges simply as a residual between market rents and GRS rents and its size varies as these two rent levels vary. Moreover, in this implicit form it is not easily recognised and subject to scrutiny. If there is a logical reason for giving servicemen a rent subsidy, there is surely a requirement to ensure that the subsidy, in whatever form it is given (i.e. as an explicit rent allowance or implicit rent concession), is logically set and not allowed to be eroded, or exploded, by factors which have no immediate bearing on its appropriate level.

120. The rent subsidy given to servicemen should be carefully calculated, and awarded in as explicit a form as possible. Servicemen renting from the private market would receive a Rent Allowance of the level determined as being appropriate; this

22. Bond money is basically a refundable deposit to cover damages caused by tenants. Bond money and increases in market rents are relevant only if servicemen rent from the market. If they rent from Defence stock they are faced with the costs of bad locations and poor maintenance.

being given in place of the present TRA (though obviously being calculated in a different way from TRA, and not being temporary). Those who continue to rent from the defence stock would receive an implicit rent subsidy—i.e. be required to pay market rents on their dwellings less an amount equal to the Rent Allowance. The process by which the subsidy is applied is discussed later; the important thing is that this concession would be explicitly determined.

121. The factors listed above are not meant to be exhaustive and all the housing-related disabilities would need to be taken into consideration when fixing a level of concession. Servicemen should receive equal treatment whether renting from the Defence stock or from the private market, as is the case with TRA at present. The level of assistance should be reviewed regularly.

122. The size of the subsidy could vary according to the particular housing market. In passing, it is noted that public servants and servicemen receive compensation through a District Allowance for living in areas which are isolated, have severe climates and where costs of living are relatively high. It may be more appropriate to deal with market differences by these traditional means rather than introduce another element for adjusting rent allowances which we have proposed.

The Program Objectives Re-Stated

123. Evaluation of the programs now permits the Committee to offer a clearer and more precise statement of program objectives than that given by the Secretary of the Department of Defence. The objectives might be described as follows:

- to build houses on base to specified standards when there is a clear defence need; and
- because married servicemen are posted frequently
 - to assist servicemen to obtain adequate housing in each location to which they are posted.
 - to compensate servicemen for the costs of moving to new locations;
 - to compensate servicemen for any otherwise uncompensated housing-related disabilities by giving them a Rent Allowance.

124. These objectives—which are implied by the need to contribute to attraction and retention of persons to the Services and to behave as a just employer—are better served by programs of assistance in which provision is limited to cases of necessity rather than by programs in which provision of accommodation is assumed to be appropriate as a matter of course.

125. There are several advantages in setting program objectives in this way. First, clear objectives permit measurement of the effectiveness of programs and this in itself is an advance in the management and control of public expenditure. Second, for parliamentary scrutiny of expenditure, clarity of objectives facilitates legislative oversight. And finally, clarification sometimes shows, as in this case, alternative ways of achieving objectives (goals) at a lower cost.

126. What has been described above is the basic long-term or end position. The only defence stock would be the exceptions and there would be no additional resources used to provide accommodation. Servicemen would therefore generally rent from the market, pay market rents and receive a Rent Allowance which would replace TRA. They would be compensated, as they are now, for the costs of moving to

new locations and would also be assisted to find private rental accommodation by a service provided by real estate agents. The GRS would be abolished.

127. But the present position is quite different to that envisaged for the long term, mainly because there is a defence stock of about 23 000 dwellings. Since this stock cannot be disposed of overnight the transition period has to be carefully programmed if the end position is to be reached.

128. The Committee sees 3 distinct phases in the transition period. The first phase would occur next financial year when for other than the exceptions and the continuation of programs commenced in previous years there would be no expenditures for the construction or acquisition of houses (i.e. under divisions 245, 248 and 252 of the estimates). This would be the only major change in 1977-78. During 1977-78 market rents would be determined for the defence housing stock by Taxation Office valuers who have done this type of work in the Australian Capital Territory. If the work cannot be completed within a reasonable period of time then the job should be given to private valuers.

129. The second phase of the transition would commence during 1978-79. Servicemen who rent from the defence stock would pay market rates less an implicit subsidy. Others who go to the market would receive the Rent Allowance. Both types of assistance would be expressed as specific dollar amounts determined by the criteria described in paragraph 117. Since this system is quite different to and indeed superior to the GRS at some stage during the transition period the GRS should be abolished. This would result in considerable cost savings (Ev. p. 442).

130. During this phase there also should be a maximum effort to transfer servicemen renting Commonwealth-owned housing in the A.C.T. to the private rental market. Since government rents in the A.C.T. would have reached market levels by then there would be no advantage to servicemen renting from this stock. There are close to 900 government dwellings used by servicemen on a permanent basis so that this change would permit reductions in budget outlays of about \$25m since fewer houses would need to be built by government in the A.C.T. to meet its present targets.

131. In the third phase the defence stock would be **gradually** and progressively reduced over time by CSHA(S) houses being returned to the States, Commonwealth-owned off-base houses being sold on the market and the on-base stock not being replaced if there is no specific defence need for on-base houses. Over time, with more servicemen renting on the market, there would be an increase in the total of the Rent Allowance and a corresponding decrease in the total of the implicit subsidy. The extent of the reduction in any particular year would depend on market conditions and the attitude of the States. The Committee notes that this phase could start in the next financial year. For example, the 194 temporary and emergency dwellings could be taken out of the defence stock in 1977-78 and the TRA paid to those servicemen who now occupy these dwellings.

132. Finally, with all the stock disposed of (other than the exceptions) the end position described at paragraph 126 would be reached.

Departmental Responsibility for Service Housing

133. Acceptance of these proposals or continuation of the present scheme requires examination of the effectiveness of programs from time to time. While the Committee has found Defence officers to be co-operative and conscientious we have

formed the opinion that the expertise to analyse complex housing programs is available in EHCD. The Committee will recommend that primary responsibility for administration and advice on defence housing be transferred to that department.

Recommendations

134. 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) from and including the financial year 1977-78 there be no provision for expenditures in the estimates to build or acquire accommodation for married servicemen:
 - the only exceptions to this general principle would be appropriations to continue programs commenced in previous years, to build houses on-base when there is a defence need and to obtain accommodation in areas where the housing market cannot physically cope with the numbers required.
- (b) during the financial year 1977-78 funds be allocated to cover the expenses associated with the determination of market rents for the present defence housing stock.

(These would be the only changes in 1977-78).
- (c) from and including the financial year 1978-79 all married servicemen who suffer disadvantages in relation to housing and who rent accommodation from the private market receive a Rent Allowance while those who rent from the defence stock receive a rent concession (implicit subsidy) of equal value:
 - the levels of these benefits should reflect the housing-related disabilities suffered by servicemen that are not compensated for by other schemes,
 - there be equality of treatment for servicemen of the same rank and in the same housing market whether they receive the Rent Allowance or the rent concession,
 - the levels of assistance should be reviewed regularly.
- (d) from and including the financial year 1978-79 maximum effort be made to transfer servicemen renting government houses in the Australian Capital Territory to the private market, thus permitting reductions in budget outlays of about \$25m.
- (e) from and including the financial year 1978-79 the existing defence housing stock should be gradually reduced by returning dwellings to the States, selling Commonwealth-owned dwellings and not replacing other Commonwealth-owned dwellings whose economic life has ended.
- (f) the Commonwealth negotiate with the States to have the vacancies and default factor removed from the economic rent formula.
- (g) at some stage in the process of running down the defence housing stock, the Group Rent Scheme be abolished.
- (h) as long as the Scheme lasts, rents set under the Group Rent Scheme be reviewed quarterly.
- (i) from and including the financial year 1978-79 the Commonwealth establish an estate agency co-ordination service which would assist servicemen to find accommodation on the private rental market.

- (j) primary responsibility for administration of and advice on defence housing be transferred to the Department of Environment, Housing and Community Development.
- (k) *the Minister for Veterans' Affairs authorise that a serviceman be allowed to use his Defence Service Homes Scheme loan to acquire a house in a locality to which he is compulsorily posted, whenever he is posted, providing that the outstanding balance of the initial loan does not increase and that a special allowance, related to the annual value of the Rent Allowance, be granted to assist married servicemen with the costs of certain transactions involved in the buying and selling of houses.*

135. The first recommendation provides for the continuation of provision programs to meet certain exceptions. In respect of these exceptions based on the analysis in Chapter III the Committee recommends that:

- (a) the relevant departments consult with appropriate organisations when reviewing standards for servicemen's housing.
- (b) The Department of Environment, Housing and Community Development examine the proposition that State housing authorities build low set houses for the defence stock because of the cost savings of \$3,000 to \$4,000 a house.
- (c) factors such as savings in the Temporary Rental Allowance and cost escalation of building programs be taken into consideration when decisions are being made as to whether acquisition or new construction is the more economical way of providing housing.
- (d) work on selection of the most economical ways of providing servicemen's housing be carried out by the *Department of Environment, Housing and Community Development.*
- (e) funds for married servicemen's housing be appropriated under one vote.

Costs and Benefits

136. Many of what the Committee sees as benefits or advantages of its proposals are apparently seen as costs or disadvantages by Defence and Finance. For this reason, if no other, we must now present a careful examination of the arguments, stating our case as clearly and concisely as possible, weighing the costs against the benefits.

137. The arguments raised by departments can be organised into the following 3 groups: the costs of the Committee's proposal; availability of rental accommodation; and effect of the proposals on Service morale and recruitment. Each of these groups of arguments is dealt with in the succeeding paragraphs after which there is discussion of the benefits of the Committee's proposals.

(a) The Costs of the Committee's Proposal

138. The central objection to the Committee's basic proposal was that it would cost more. Finance claimed that the Rent Allowances 'would constitute an additional cost to the Budget equivalent to the total cost of the Rent Allowances paid to Servicemen' (Exhibit 51, p. 361). This so-called cost increase was estimated as being between \$10m and \$15m by Finance. Examination of this argument is inevitably complex. The Committee has therefore summarised its views in the text of the report while presenting a fuller explanation in Appendix 5.

139. In the first place, assuming for the moment that Finance is correct (which it is not) budget outlays would not increase immediately by these amounts. As long as

there is a steady construction program which, as under present plans, would continue over the years, net cash outlays would be lower under our proposal than they would be if the present arrangements were continued. Therefore, even on the basis of the Finance argument, there would be no increases in cash outlays (in fact there would be reductions) for at least the first 5 years of the Committee's proposal.

140. But the Finance argument has another and more serious flaw. It overlooks the real cost that is in effect borne by Consolidated Revenue when rents are below market rents since the dwellings could alternatively be let to the community at large (or servicemen) at the higher market rent levels. Both Finance and Defence have admitted that servicemen's rents are less than market levels. There is thus an implicit cost to the budget in respect of existing Commonwealth stock. Taking this cost into consideration, and the Committee firmly believes it has to be taken into consideration in any rational analysis, there is really no difference in terms of total costs between our proposal and what now exists. It costs taxpayers no less and no more for the Commonwealth to pay a Rent Allowance than to purchase houses and charge less than market rents (give an implicit rent subsidy) as long as the levels of the two subsidies are the same (See Appendix 5). That is precisely what has been recommended. Indeed the Committee would recommend the fixing of a concession level even if the present scheme were regrettably continued.

141. The views of Finance on this matter are different from those held by other departments which have economic expertise. In analysing alternatives Treasury says that:

' . . . in considering the relevant costs and benefits involved (one must) take account of costs or benefits to the community as a whole that may not be reflected in the direct financial data, for example, . . . **conservative accounting, which does not fully allow for the market value of the accommodation provided**' (Ev. p. 339 and 340; emphasis added by Committee).

142. The view in the Treasury submission (made to the Committee before the creation of Finance) was also supported by EHCD. It said that since service rents were below market levels there is a subsidy and while 'allowances' of this sort might be accepted as necessary to compensate for housing difficulties associated with the serviceman's occupation 'the rental system should clearly identify any such allowances to indicate the true cost of service housing'. (Exhibit 52, p. 372).

143. In view of the importance of the issue the Committee also sought advice from outside the departments, and asked Professor R. L. Mathews, Professor of Accounting and Public Finance, Australian National University for his views which are published in full at Appendix 6. He observed that:

' . . . once the house is in existence, the historical cost of the house (or indeed its current replacement cost) is irrelevant in determining the **real** cost of providing the accommodation. If the rent charged is below the market rental, the choice between historical cost, replacement cost and any other cost method of determining the amount charged is arbitrary and cannot disguise the fact that **the shortfall below market rental is a subsidy.**' (Appendix 6, emphasis added by the Committee).

144. The Committee is therefore convinced that Finance is mistaken when it says that rent allowances would represent an added cost to the budget. This departmental view has implications for other housing policies as well. The argument

could be interpreted to imply that the Government is profiteering by moving to charge market rents for government housing in the A.C.T. because these rents would be higher than is necessary to recover full historical costs. In the same context the Government could be accused of encouraging State governments to profiteer by prompting them to charge market rents for welfare housing with rebates offered only to those who meet particular criteria.

145. The Committee argues further that when compared with the existing scheme, its proposal should not result in *net* increases in explicit costs to the budget. This would be easy to see if all of the defence stock houses were owned by the Commonwealth. By progressively selling off elements of its housing stock, the Commonwealth would obtain capital gains given present housing prices compared to its original outlays; and were these capital gains invested at the long-term bond rate the annual income obtained would pay for Rent Allowance expenditures for many years²³.

146. While this argument applies to that part of the defence stock which is Commonwealth-owned, in reality this amounts only to some 30% of the total. The remainder are 'owned' by the States and would need to be returned to the States which would add these houses to their stock of welfare houses. In many cases, too, it would be possible for the States to demand that their interest charges on the loans outstanding on returned houses be lowered to the current welfare housing interest rate of 4%.

147. This does not mean though, that disposing of these houses would imply that budget costs would simply increase by the amount of the Rent Allowance then payable plus any loss of revenue due to lower interest repayments received by the Commonwealth. The housing released from Defence use would be added to the States' stock of welfare housing. From the Commonwealth's point of view an increase in its support of welfare housing has been achieved in this way rather than by increasing its (subsidised) loans for new construction by the States²⁴. The apparent loss in one part of the budget is cancelled by an equivalent gain in another (again see Appendix 5.)

148. There are, however, a couple of other cost-based arguments that need some comment, relating to the possibility of increased TAA expenditures, and the possibility of people who currently make their own arrangements choosing to enter into the new scheme.

149. Both Defence and Finance argued that a Rent Allowance would lead to loss of time spent in searching for accommodation, and increased expenses on TAA. In the first place, it is precisely for the purpose of restraining such cost increases that the Committee recommends the establishment of an estate agency co-ordination service. Information on available accommodation would be made easily and cheaply accessible to servicemen, and a simple check would be available to Defence on those who are taking an unusually long time to find accommodation. It is noted that even now servicemen try to find others who are vacating rented accommodation so that a simple transfer of lease might sometimes be arranged. In the second place, moreover,

23. Some houses may not realise very much on being sold because they are near to the end of their economic lives: but then they belong to the group which under the existing scheme would be eliminated in the future anyway.

24. Or the Commonwealth could choose to actually cut down its new loans, if it wished, without reducing its effective supply of welfare housing, in which case the saving to revenue would be even clearer.

the information that Defence collects on TAA does not enable us (or them) to distinguish between time spent by servicemen in temporary accommodation while waiting for a defence house on the one hand, as against time spent searching for private accommodation on the other. All we know is that the present 'assessed' average is about 9 days on TAA. What is relevant is only the extra time, if any, spent searching for private accommodation compared with time waiting for a defence house, and while this might involve increased expenditure, there is no reason for anyone to suppose that the increase will be large; and in terms of budget outlays in the early years, as our previous discussion indicates, it would take astronomical increases in TAA to cause total outlays to actually increase. In any case, against any increase that does occur must be set the undoubted gains in terms of flexibility allowed to servicemen in choosing housing that matches their individual preferences that arise from our proposal.

150. It is also possible that under the Committee's proposal some servicemen who now make their own arrangements would become eligible for the Rent Allowance. Defence does not know, understandably, how many servicemen prefer to make their own rental arrangements rather than live in a defence house when faced with these two options. While these additional numbers will add to costs of the proposal there are compensating benefits. The programs will become more effective in meeting specified objectives and this, in turn, should assist to retain the servicemen in the Services for a longer period than would otherwise be the case. Indeed, the fact that some people are probably discouraged from accepting the present concessional rents because of the poor quality or location of existing defence housing must be seen as a disadvantage of the present scheme that would be eliminated by the rent allowance scheme.

(b) Availability of Rental Accommodation

151. Defence has argued that a second major defect in our proposal is that the private sector would be unable to provide accommodation in sufficient quantities in many areas. There are about 23 800 dwellings in the defence stock. Defence said 12 300 are in capital cities, 8200 in remoter areas, and 3300 on-base. Furthermore, it stated that while this seemed to give about 50% of its stock in capital cities, about 4000 of that stock (in existence or planned for the next 5 years) is in areas like Pearce (W.A.) Laverton (Vic.) Edinburgh (S.A.), Richmond and Holdsworthy (N.S.W.) where it argued substitute private accommodation is in very short supply—a fact which would seem to leave only about 8000 homes likely to fall fairly clearly into the group which might be replaced by having servicemen rent privately.

152. First, even if 'only' 8000 dwellings were able to be replaced in the foreseeable future it would be worth beginning dismantling the current provision programs in these cases, and all the more so since it is likely that a significant part of the older sub-standard stock would be included in this number.

153. In the second place, though of at least equal importance, the Defence argument that there is no evidence that the private owners will respond by supplying rental accommodation is overstated. At the simplest level, the fact that hundreds of servicemen are presently in receipt of TRA in areas such as Richmond, Liverpool and Perth is proof that, when required, accommodation is available in areas picked out for special mention by Defence. Moreover, in present circumstances private sector rental supply is conditioned by the expectation that Defence-controlled accommodation will

eventually be built or acquired in the area so that any demand from servicemen is seen as purely temporary. In an environment where it is expected that future requirements will not be met by a program of Commonwealth or State construction or acquisition, private sector supply of rental accommodation is likely to be stimulated. As EHCD acknowledged (Ev. p. 418) where an active market exists it would respond to an actual demand coming on stream slowly; and we feel obliged to add that where no active market exists it is likely to be stimulated into existence by the promise of a stream of demands.

154. One certainly does not need to pin ones hopes on the existence of a perfect market (Ev. p. 422) to conclude that much of the present stock—actual and planned for the near future—could be eliminated slowly, and that this possibility might also apply in some cases in what was called ‘remoter areas’. The additional number of servicemen requiring market supplied accommodation in any one area in any year would be small. As previously stated, there is need for a transition period in which initially one might simply eliminate plans for new construction, particularly in locations where the number of new dwellings planned is small, and then slowly reduce the existing stock at a pace partly determined by what the private market will respond to. Even in some cases like Townsville where virtually a separate suburb has been created for service dwellings the slow release of some of the existing Defence controlled stock might lead to the release of other accommodation in reasonably accessible areas, or the stimulation of supply of new private rental accommodation.

155. While exceptions would undoubtedly exist, after a reasonable transition period the Committee does not expect them to be nearly as large a proportion of the present stock as Defence has attempted to argue. Obviously the market cannot be expected to cope instantaneously with decisions by the Commonwealth to locate servicemen in hitherto sparsely populated areas, or to move a whole squadron from one end of Australia to the other; but it can cope with reasonably planned and executed incremental changes in housing demands.

(c) Effects on Service Morale and Recruitment

156. A final series of observations relating to the question of whether or not the proposal is beneficial to servicemen seem necessary in the light of some further comments made by Defence. Throughout the hearings, Defence representatives have repeatedly asserted that morale, and hence retention and attraction of servicemen, is crucially related to defence housing policy. In the last series of hearings it was asserted that the proposal of discontinuation of provision of housing would disastrously affect the efficiency and morale of the forces (Ev. p. 365).

157. At no point has Defence produced hard evidence of the role of housing policy in attraction and retention, and it seems barely credible that a scheme which would provide servicemen with a wider choice of accommodation while assuring them of a given level of allowance (or concession) would be regarded by servicemen as inferior to present arrangements, which surely have little to do with the attraction and retention objectives (see paragraph 108). Much of the housing which is now a source of complaint would be eliminated, rents payable by servicemen would be maintained at a given amount below market rents, and servicemen would often have a wider discretion to choose how to trade-off location and other desired characteristics of housing against cost. Indeed, in the course of discussions with the Committee some

of the Defence representatives appeared to change their opinions (see, for example, Ev. p. 406).

158. Once a reasonable housing policy is established, with servicemen offered compensation for their housing-related disabilities, the Committee believes factors other than housing will have a larger impact on retention rates (especially pay levels and re-engagement bonuses). There are undoubtedly some servicemen who regard the provision of accommodation, at concessional (and preferably nominal) rents, as an absolute right. If service pay and allowances are set at levels which provide comparative wage justice, a just employer would not seem to be required to actually provide accommodation, but only to assist the serviceman to find it and compensate him for any related costs, and indeed all would be better-off under such a policy.

159. Against this proposition, Defence quoted the words from paragraph 10 of the third report of the Committee of Inquiry into Financial Terms and Conditions of Service for Male and Female Members of the Regular Armed Forces that ' . . . as a matter of principle and consistent with the views of industrial tribunals, such disabilities as can be removed should not be compensated by way of allowances '.

160. While accepting the importance of these views, it seems to us to be too narrow an interpretation both of these words, and of the nature of housing-related disabilities faced by servicemen, to accept that provision of accommodation is implied by them. The serviceman's housing disabilities would only be truly removed by the abandonment of postings practices, and indeed it is very difficult to separate the housing-specific from the more general disadvantages created by those practices. The provision of accommodation in fact eliminates only one sort of housing-related cost—the emotional costs and some financial costs related to searching for accommodation and even then does so completely only if accommodation is always guaranteed—though provision at concessional rents involves the additional policy of offering a housing-related subsidy. The Committee has since discovered that the report suggested a hirings scheme and also said at page 8 that ' . . . housing policy and the desirability of a hirings scheme are outside the scope of our Terms of Reference '. As a committee of the Parliament we cannot be bound by an interpretation of the words of another inquiring body particularly when we have our own terms of reference as a guide.

(d) Benefits

161. The arguments put forward by Finance and Defence against our proposals have little substance. What is left for us to do is to indicate the benefits and advantages of our recommendations.

162. The basic recommendations we make rest on the premise that the market with its larger numbers of dwellings, greater flexibility and adaptability to change, is in a better position to provide servicemen with accommodation than Defence is with its limited stock of defence houses with a fixed set of characteristics. Therefore servicemen should be encouraged to rent on the private market and exercise individual choice as to location, quality and so forth. We recognise there are exceptions to this rule and our recommendations cater for this.

163. But since servicemen have certain housing related disabilities we consider they should pay less than market rents, and accordingly should receive an explicit subsidy or Rent Allowance. While there is a defence stock it then follows that rents of this stock should also be subsidised. We go further and argue that the levels of subsidy

should be determined by rational processes rather than by accident as is now the case.²⁵ This recommendation would benefit servicemen because it could halt further irrational erosion of the benefits they receive.

164. The Committee has refuted arguments which assert that Rent Allowances would add to budget outlays. We find that our basic recommendations could reduce budget outlays by significant amounts in the short term as the following figures show:

1977-78: reduction of \$13m.

1978-79: reduction of \$28m.

1979-80: reduction of \$31m.

165. In the longer term there would be further reductions of about \$210m. The figures are estimates and make no allowance for the exceptions. The basis for calculating these figures is at Appendix 8.

166. These figures do not represent savings in the strictest sense of the term. All these outlays are repayable with interest over 53 years, so that there will be a steady stream of income which will be received in future years. These reduced outlays should be seen therefore as short-term benefits. Neither can one argue that what is involved in these figures is a resource-saving that is immediately available for other public or private sector use. Public sector housing activity will be reduced, it is true, but the private sector will then need to provide accommodation that otherwise the public sector would have provided though some resource-saving might occur because relatively more economical ways of providing accommodation will be secured by the market than has been true in the existing scheme. The effect of the shuffling around of resources, however, will secure, eventually, a housing scheme for servicemen which is as we have stated before, much more effective than the present one in meeting its objectives and servicemen's requirements.

167. The Committee has examined the costs and benefits of various alternatives and it is on this overall basis that its proposals are based. Our task has been complicated by the fact that governments have not developed a housing policy based on an overview of all the housing-related implications of postings policies and the various ways in which some compensation is made for them. None of the major objections to the Committee's proposals has shaken its belief that the most effective and economical way of compensating servicemen is through an allowance to assist them to obtain private rental accommodation. Some substantial exceptions might exist, and some modifications may be necessary to cope with special cases (for example, the argument that special consideration may be necessary for wives of sailors away at sea requires sympathetic consideration) but such considerations should only modify the extent, not the direction, of desirable changes.

R. V. GARLAND
Chairman

May 1977

25. It could be said that in determining these levels regard should be given to what public servants receive. We discuss this matter in Appendix 7.

APPENDIX 1. WITNESSES AND EVIDENCE

(a) List of Witnesses

ANDERSON, Mr R. A.	Chief Executive Officer, Service Conditions Branch, Department of Defence, CANBERRA. A.C.T.
BLACKWELL, Air Commodore J. H.	Director-General, Personnel Services, Royal Australian Air Force, CANBERRA. A.C.T.
BUCKHAM, Mr M. W.	First Assistant Secretary, Defence Facilities Division, Department of Defence, CANBERRA. A.C.T.
COUNT, Lieutenant-Colonel M. A.	Staff Officer, Industrial Division, Department of Defence, CANBERRA. A.C.T.
DAVIS, Mr B. W.	Acting Chief Executive Officer, Defence Facilities Division, Department of Defence, CANBERRA. A.C.T.
FOGARTY, Mr P. J.	Acting First Assistant Secretary, Industrial Division, Department of Defence, CANBERRA. A.C.T.
FRANKCOM, Mr M. W.	Assistant Secretary, Property Division, Department of Administrative Services, CANBERRA. A.C.T.
GRIFFITHS, Rear-Admiral G. R., D.S.O., D.S.C.	Chief of Naval Personnel, Department of Defence, CANBERRA. A.C.T.
HARRIS, Mr W. J.	First Assistant Secretary, Housing Division, Department of Environment, Housing and Community Development, CANBERRA. A.C.T.
HOOPER, Brigadier J. A.	Director-General, Personnel Operations, Army Office, CANBERRA. A.C.T.

McINERNEY, Commodore J.	Director-General, Naval Personnel Services, Royal Australian Navy, CANBERRA. A.C.T.
PARKER, Air Vice-Marshal I. S., D.F.C., A.F.C.	Chief of Air Force Personnel, Department of Defence, CANBERRA. A.C.T.
SEE, Mr K. W.	First Assistant Secretary, Defence and Works Division, Department of Finance, CANBERRA. A.C.T.
SELLECK, Mr A. J.	First Assistant Secretary, Housing Division, Department of Environment, Housing and Community Development, CANBERRA. A.C.T.
TANGE, Sir Arthur, C.B.E.	Secretary, Department of Defence, CANBERRA. A.C.T.
WIGLEY, Mr E.	First Assistant Secretary, Property Division, Department of Administrative Services, CANBERRA. A.C.T.
WHITELAW, Major-General J., C.B.E.	Chief of Army Personnel, Department of Defence, CANBERRA. A.C.T.

(b) Evidence

Evidence was taken by the sub-committee at public hearings on 8 and 15 October 1976 and at *in-camera* hearings on 29 November 1976 and 18 and 21 April 1977. Witnesses were told at the *in-camera* hearings that the evidence would be published when the Report was tabled in the House of Representatives. The sub-committee also received submissions which were treated as Exhibits and has authorised publication of them.

2. The following is an index of the Exhibits:

<i>Exhibit No.</i>	<i>Page</i>
1	Annex A to submission from the Department of Defence dated 13 August 1976, containing—
	(a) Commonwealth Housing Agreement Acts Nos 43 of 1956, 31 of 1961 and 24 of 1966; *
	(b) Commonwealth-State Housing Agreement (Servicemen) 1972 1-18

<i>Exhibit No.</i>		<i>Page</i>
2	Annex B to submission from the Department of Defence dated 13 August 1976, containing an extract (pages 2/1 to 2/9) of the current Services' Scales and Standards of Accommodation	19-27
3	Annex C to the submission from the Department of Defence dated 13 August 1976 containing recruitment publications and advertisements.	*
4	Report of the Defence Working Party convened to Review Provisioning Aspects of Defence Housing Policy	28-67
5	Submission dated 27 July 1976 with covering minute from Mr Buckham, First Assistant Secretary, Defence Facilities Division, Department of Defence.	*
6	Breakdown of 1976-77 Budget on Servicemen's Housing	68
7	Estimates—Applicable Divisions for Expenditure on Servicemen's Housing	69-70
8	Defence Instructions (General)—Pers 01-1 (covering Group Rental Scheme and Temporary Rental Allowance)	71-97
9	Cost of Houses Recently Acquired by Defence in Queensland by Group and Location	98
10	Interim Economic Rent Formula as at March 1975, used for Commonwealth Owned Dwellings	99
11	Economic Rental Formula used by State Housing Authorities	100
12	Temporary Rental Allowance	101-108
13	Navy Posting Policy & Practice	109-111
14	Army Posting Policy & Practice	112-113
15	RAAF Posting Policy & Practice	114-116
16	Submission from the Council of Australian Government Employee Organisations dated 4 October 1976	*
17	Length of tenancy of Service married quarters and statement by Minister for Defence	117-121
18	Costs of acquisitions by Defence at Ingleburn and Minto, N.S.W.	122-123
19	Location and standards of service married quarters	124-161
20	Salaries of male officers and male other ranks—August 1976	162-163
21	CSHA commitment and draft program for 1976-77	164-165
22	Extract from Defence Report 1973	166-167
23	Location of CSHA dwellings proposed for construction 1976-77	168-170
24	Cost to revenue in 1975-76 of vacant CSHA dwellings	171
25	Submission from the Department of Veterans' Affairs on Defence Service Homes Scheme	172-178
26	Costs to purchase and rent dwellings in Melbourne as supplied by L. C. Brabender and Associates Pty Ltd	179-186

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27	Costs to purchase and rent dwellings in Sydney as supplied by C. H. Little (Sales) Pty Ltd	187-191
28	Costs to purchase and rent dwellings in Sydney as supplied by W. E. A. Schloeffel & Son Pty Ltd	192-193
29	Costs to build dwellings in Melbourne as supplied by RDC Projects (Vic.) Pty Ltd	194-199
30	Costs to build dwellings in capital cities throughout Australia as supplied by Jennings Industries Ltd	200-212
31	Submission from the Department of Administrative Services dated 7 December 1976 on evidence given at the <i>in camera</i> hearing on 29 November 1976	213-220
32	Revised cost to revenue in 1975-76 of vacant CSHA dwellings	221
33	Submission from the Department of Finance on the alternative methods of obtaining houses	222-223
34	Revised figures from the Department of Environment, Housing and Community Development of CSHA houses handed back to the State authorities	224
35	Costs to build dwellings in Townsville as supplied by National Homes Pty Ltd	225-227
36	Costs to build dwellings in Defence areas throughout Australia as supplied by Jennings Industries Ltd	228-233
37	Comments by the Department of Defence on	
	(a) estimated cost to bring 1400 dwellings up to standard	234
	(b) emotional costs of removal	235
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	and supply of married quarters—	
	(iv) Navy	239
	(v) Army	240
	(vi) RAAF	241
	(d) initial occupancy and Home Rent Purchase System provisions of the Defence Service Homes Act	242-245
	(e) numbers of dwellings having an economic rent in excess of \$75 a week	246
	(f) amount of subsidy before 1975	247
	(g) details of prolonged vacancies in CSHA dwellings	248
	(h) authority for revision of SSSA provisions	249
38	Costs to build dwellings in the Perth region of W.A. as supplied by RDC Pty Ltd	250-251
39	Costs to build dwellings in Townsville as supplied by Dixon Investments Pty Ltd	252

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40	Comments by the Department of Defence on	
	(a) general matters including compensation for service disabilities	253-254
	(b) proposed Government expenditure on defence housing programs from 1977-78 to 1979-80	255
	(c) Service Allowance and the provision of housing	256-271
	(d) basis for estimating costs of dwellings to be built under CSHA	272
	(e) implementation of 1976-77 CSHA program	273
	(f) type of dwelling, number of units, locality and total costs of houses provided for under CSHA in Sydney, Melbourne and Brisbane in 1973-74, 1974-75 and 1975-76 Budget programs	274-275
	(g) acquisition in 1976-77 and mix between acquisitions and CSHA	276
	(h) details of Panania houses	277
	(i) loss to revenue of annual rent adjustments	278
	(j) Report of Defence Facilities Policy Committee on Defence Housing Policy	279-324
41	Costs to purchase and rent dwellings in Townsville as supplied by Pascoe, Hall and Cole Pty Ltd	325-327
42	Costs to purchase and rent dwellings in capital cities throughout Australia as supplied by L. J. Hooker Ltd	328
43	Submission from the Department of Environment, Housing and Community Development on the alternative methods of obtaining houses	329-330
44	Submission from the Department of Defence dated 28 February 1977 on the financial statement for GRS-15 April to 25 November 1976	331-332
45	Submission from the Department of the Capital Territory dated 1 April 1977 on rented accommodation in the A.C.T.	333-335
46	Submission from R. A. McKillop & Co. Pty Ltd dated 12 April 1977 on rented accommodation in the A.C.T.	336-337
47	Submission from the Department of Veterans' Affairs dated 12 April 1977 on the Defence Service Homes Scheme	338-340
48	Submission from Mrs J. M. Norton dated 13 April 1977 on Defence Housing	341-351
49	Submission from the Real Estate Institute of Australia dated 20 April 1977	352-355
50	Submission from the Department of Environment, Housing and Community Development dated 21 April 1977 on a survey of rented accommodation in Sydney, Melbourne and Hobart	356-357

<i>Exhibit No.</i>		<i>Page</i>
51	Submission from the Department of Finance dated 27 April 1977	358-365
52	Submission from the Department of Environment, Housing and Community Development dated 29 April 1977 on some aspects of the provision of housing for servicemen	366-373
53	Submission from the Department of Environment, Housing and Community Development dated 29 April 1977 on advances to the States in accordance with CSHA's	374-376
54	Submission from the Department of Defence dated 2 May 1977 on GRS, vacant CSHA flats and TRA	377-383
55	Submission from the Real Estate Institute of Australia dated 10 May 1977	384-386
56	Submission from the Real Estate Institute of Australia dated 29 April 1977	387-402

* These exhibits have not been published.

APPENDIX 2. THE DEFENCE SERVICE HOMES SCHEME

The Committee's interest in the Defence Service Homes Scheme is marginal in terms of this report. This Scheme assists certain former and serving members of the defence forces to acquire a house. The Committee understands that one of the purposes of the Scheme is to compensate servicemen because they are unable to 'put down roots' due to the postings policy.

2. Under the Scheme an eligible person may borrow up to \$15,000 repayable over 32 years for the acquisition of a house. Interest is charged at 3.75% for the first \$12,000 and 7.25% for the balance.

3. There is a lack of portability of loans under DSHS. Although a serviceman can obtain a loan to acquire a house he is not able to use the unpaid part of this loan to obtain a house in the new locality to which he is compulsorily posted. If this rule were varied and if the Commonwealth met some of the costs of these transactions by giving a special allowance related to the annual value of the rent allowance, both the servicemen and the Commonwealth would be better off, with no one being worse off. The portability provisions of the loan should permit one final transfer after retirement so that the serviceman can finally settle down in the locality of his own choosing. The Committee will make appropriate recommendations on this matter at paragraph 134.

APPENDIX 3. CALCULATION OF COSTS OF BUILDING BY CSHA AND A PRIVATE BUILDER

The program cost for the 332 CSHA dwellings is given in Exhibit 23 (page 168) which also gives the type and location of the dwellings.

2. Exhibits 30 and 36 (pages 200-212 and 228-233) indicate the product names, sizes and costs of the dwellings built by a private builder which the company considers to be of the same type and location as the CSHA dwellings. The building cost figures for the private builder were adjusted to give the cost of houses of the equivalent size of the CSHA dwellings. The cost of the land, as shown in the exhibits was added to the building costs. On this basis the total cost of 332 dwellings from the private builder was \$11,079,446. This figure does not include administrative costs which the Commonwealth would have incurred had the dwellings been built by private enterprise. Accordingly the figure was increased by 8.75% (the 1975-76 CSHA figure) to cover these costs.

APPENDIX 4. CALCULATION OF THE IMPLICIT RENT CONCESSION

The difference between market rents and the rents servicemen pay represents an implicit subsidy or rent concession.

2. Finance said that the average TRA a serviceman receives could indicate the extent of this benefit. This average is \$24 a week based on 1976-77 figures.

3. This figure would be representative of the implicit subsidy only if the dispersal of defence dwellings were in the same market areas as TRA's. Since the Committee does not know whether or not this is the case it has looked for a more refined method of calculating the amount of implicit rent concession.

4. Ideally if the market rents can be determined for each of the defence dwellings then this total can be compared with what servicemen pay, and the difference will represent the subsidy. Such work has not been done to date.

5. The next best approach therefore is to use the market rents figures used in the calculation of TRA, relate these to the location and types of defence dwellings, and, by using a process of weight-averaging, obtain market rents which can then be compared with GRS rents.

6. There are three TRA market areas (i.e. Sydney/Melbourne etc.; Canberra; and Other) and within these areas the defence housing stock is sub-divided into 6 sub-groups of houses. The first stage in estimating market rents for the defence housing stock was to distribute that stock (Exhibit 19) in the 3 TRA market areas, and within each area, to the 6 sub-groups mentioned.

7. Having obtained the number of houses in each sub-group according to market area, the next step was to obtain a single market rent for each of the sub-groups. This was done by multiplying each of the three market rents of the 3 TRA areas by the proportionate number of dwellings in each sub-group. For example, in what is called Group 1 dwellings the market rents are \$51.50 a week for Sydney/Melbourne, etc., \$38.50 for Canberra and \$46.50 a week for Other. Of the 2685 dwellings in this sub-group, 58% of the dwellings are in the first area, 3 per cent in the second and 39 per cent in the third. When each of these 3 market rents are multiplied by the percentage figures of houses in each market area we get a weighted average market rent of \$49.22 a week for the Group 1 Dwellings. This compares with \$26.50 for Group 1 under GRS.

8. In this way market rents are calculated for all the sub-groups.

9. The third step is to multiply these market rents calculated for each sub-group by the number of houses in each sub-group; from this figure an average market rent per dwelling per week can be calculated and this can be compared with the average GRS rent.

10. The comparison shows that the average implicit rent concession ranged from \$22 to \$27 a week in 1976. The addition of the Temporary Rental Allowance affects the figure only marginally, though it does add of course to the total benefit servicemen receive.

11. GRS rents will increase substantially in 1977. If one assumes that market rents in these areas have not increased, then the implicit rent concession would fall in 1977 to between \$14 a week and \$20 a week.

12. The Committee has used a range of figures, as the two preceding paragraphs indicate, because of the difficulty of getting market rents for Group 1A houses. There are no TRA market rents for this group, so the Committee calculated market rents for 1A on three bases; namely that 1A market rates were either \$3 or \$5 or \$10 a week below market rates for Group 1 dwellings.

APPENDIX 5. THE COST OF RENT ALLOWANCES

(a) Budget Outlays in the Early Years of the Proposal

1. Here the budget outlays argument is considered initially in the most simplistic way—i.e., assuming that all that is done is to abandon present proposals for adding to the defence stock, the question posed is that of whether outlays will increase or not. What is presented is an illustrative rather than definitive example but it captures the essence of the important arguments with as much realism as possible.

2. Under present plans, Defence has suggested that it would like over 3500 houses to be built over about 5 years (Evidence, p. 451) at an average expected cost of about \$38,000 each. Some of these houses would replace existing stock which is declared sub-standard, but this would not change the argument. Actually the precise numbers of houses built is not particularly important to the point being considered but some realism is secured by supposing on this basis that the present plan is to construct about 700 houses a year for each of the next 5 years (ignoring the lag between starting and finishing construction which introduces a phasing problem but is not particularly important to the argument). The cost of this activity in each year of the program is the cost of the houses to be built in that year (700 x \$38,000) less the repayments with interest from the houses built in previous years as a result of the program having been allowed to proceed (the existing flow of repayments can be ignored since that will continue whether new building proceeds or not).

3. The alternative is not to build as planned, but rather to have the families which would have occupied the new houses go into (or remain in) the market with a Rent Allowance which, suppose, is set at the present average concession level of roughly \$1,200 a year. Thus in each year the 'cost' of the Committee's proposal is the Rent Allowance paid to people who would otherwise have moved into new houses: the cost of allowances to an extra 700 people is added each year.

4. Adopting the most simplistic assumptions, then, the alternatives can be compared as follows:

	<i>Net Change in Outlay if Planned Provision Program Proceeds</i>	<i>Cost if Allowances are paid instead</i>
Year 1	700 houses built at \$38,000 per house <i>net outlay: \$26.6m</i>	700 people paid \$1,200 each <i>net outlay: \$0.84m</i>
Year 2	700 houses at \$38,000 less repayment with interest on year 1 loans <i>net outlay: \$26.6m - \$3.3m = \$23.3m</i>	Add another 700 people. <i>net outlay: \$1.68m</i>

	<i>Net Change in Outlay if Planned Provision Program Proceeds</i>	<i>Cost if Allowances and paid instead</i>
Year 3	700 houses at \$38,000 less repayment with interest on previous 2 years' loans <i>net outlay:</i> \$26.6m - \$6.5m = \$20.1m	Add another 700 people. <i>net outlay:</i> \$2.52m
Year 4	700 houses at \$38,000 less repayment on previous 3 years' loans. <i>net outlay:</i> \$26.6m - \$9.7m = \$16.9m	Add another 700 people. <i>net outlay:</i> \$3.36m
Year 5	700 houses at \$38,000 less repayment of previous 4 years' loans. <i>net outlay:</i> \$26.6m - \$12.8m = \$13.8m	Add another 700 people. <i>net outlay:</i> \$4.20m

In summary form:

	<i>Net Change in Outlays for Planned Provisional Program</i>	<i>Alternative Cost of Rent Allowances</i>
	\$m	\$m
Year 1	26.6	0.84
Year 2	23.3	1.68
Year 3	20.1	2.52
Year 4	16.9	3.36
Year 5	13.8	4.20

5. The difference is, of course, quite striking and it must be emphasised that here a framework has been adopted which puts the existing proposal in its best light over these years and the Rent Allowance alternative in its worst. For example governments might be sometimes inclined to consider the implication of the programs for gross outlays, despite the obvious inappropriateness of this approach. Moreover, and more importantly, the example allows the present program to erode the implicit concession per serviceman as numbers of houses are added to the existing stock at high economic rents while insisting that under the Committee's proposal the concession or allowance be maintained constant.

6. Before varying these assumptions it is worth adding that on the basis of the simplistic approach accepted here even if one had to allow very significant reductions in interest payments on affected houses, it is possible to envisage returning several hundred houses to the States in each of these years without causing total outlays on the Committee's proposal to exceed the outlays under the existing scheme (if the States demanded no compensation, as many as 1400 houses per year could be sold or returned without causing the Allowance proposal to cost more than the existing one in any of the next 5 years).

7. It might be said, of course, that in this example there is an undue focus on the early years, and that beyond year 5 (or whenever the construction programs would actually end) the existing scheme will appear least costly each year—indeed it will result in income receipts alone once outlays on construction and renovation cease, while the Committee's scheme would result in continuing, and increasing, outlays as part of the existing stock is eliminated too. But the point that is to be made here is simply that (a) Finance's claim of a cost to revenue of \$10m or more does not arise immediately; (b) moreover net budget savings will occur for a number of years; and (c) taking account of these early year gains it would be many years before the Committee's proposal became as costly as the existing proposal looked at from today's viewpoint and treating dollar losses or gains in later years as less important than the evaluated losses or gains today.

(b) Implicit Costs

8. Since the purpose of the investigation the Committee has undertaken has been to attempt to find the best means of meeting program objectives evaluated from society's viewpoint, there seems to be no doubt that the focus on actual budget outlays is too narrow. From the taxpayer's viewpoint, implicit costs are ultimately as important as explicit costs, and it is the impact of alternatives on the total of explicit and implicit costs that is relevant.

9. If the level of the proposed Allowance/Concession is set at the level of the present implicit concession, then the Committee's proposal, in terms of the cost of rent allowances, would involve no extra cost in relation to the 23 000 servicemen currently occupying service-controlled dwellings when the explicit and implicit costs are summed in both cases. Counting in the servicemen currently receiving TRA; accepting that the present implicit subsidy is worth about \$22 per week; and assuming that eventually about 60 per cent of married servicemen currently occupying defence controlled housing would go into the market¹, the change would be as depicted below:

	<i>Rent allowances and concessions</i>	
	<i>Present Scheme</i>	<i>Proposed Scheme</i>
	\$m	\$m
Explicit Allowance	5.7	21.3
Implicit Outlays	26.0	10.4
Total cost	31.7	31.7

The implicit outlays under the proposed scheme include the rent concession which though explicitly calculated and applied against market rents is not a direct charge on the budget. (Because of those currently on TRA, the numbers here imply that 67% of all affected servicemen receive an explicit allowance.)

1. This is an arbitrary assumption chosen for illustrative purposes. The particular assumption affects the division between explicit and implicit costs in the last column, but not the overall principle.

10. The emphasis placed by Finance on the first line of this table is quite misplaced, not only because both forms of costs are important (see the Treasury submission again) in evaluating the most desirable scheme, but also because it seems to be the case that, in the process of moving from the present scheme to the Committee's proposal, funds would be generated, or could be released, which would cover the added explicit costs anyway.

(c) The Net Budget Impact of Moving to Rent Allowances in the Long-Run

11. As is pointed out in the text, there are sources of revenue, and savings of alternative expenditures, which must be deducted from the explicit costs of the Rent Allowances before the net budget impact can be determined. When these are taken into account it would seem that the net budget impact of the Allowances in the long-term (as well as being favourable in the short-term as suggested in (a) above) would be negligible, a point which is supported by the reasoning of Professor Mathews. (Appendix 6).

12. Turning first to plans to make new additions to the defence stock, once it is agreed that a given level of concession should be available to all married servicemen² it makes no difference to outlays whether the backlog of housing demand is met by obtaining additional accommodation (in the most economical ways of course) for servicemen and allowing them to occupy it at a concessional rent, or by giving servicemen a rent allowance of equal value and requiring them to find their own accommodation. Since in the long-term the economic rent of each new dwelling added should be roughly equal to market rent (otherwise better decisions could be made) the new dwellings themselves make no contribution towards the concession it is planned to give. Thus if the level of concession is fixed, the concession for the new dwelling will involve an explicit cost to revenue of as much as would be involved in giving the serviceman an explicit allowance as the Committee proposes.

13. In terms of the example in section (a) above, this means that seen in the (more appropriate) context of a fixed level of concession or allowance, the cost of the allowance should be added to the left-hand column as well as appearing in the right-hand column, thus ensuring that in net terms the difference between meeting the backlog by construction and acquisition or by having servicemen obtain private rental accommodation is the flow of outlays (and receipts) entailed in the construction and acquisition program.

14. But what if some of the existing stock of houses is disposed of: would it not be true that the Commonwealth would lose the advantage of their low rents? This would not, in fact, be the case. In the long-run either revenue would be raised or other budget savings generated of sufficient magnitude to offset the costs of meeting the explicit allowances that would become payable to servicemen who would otherwise have occupied these dwellings.

15. If all of the defence stock houses were Commonwealth owned this point would be easily seen. That is, the houses on which economic rents are lower than market rents should be able to be sold at prices higher than their original cost by an amount roughly equal to the capitalised value of the difference between the economic

2. It must be emphasised that the level of concession paid to each serviceman must be fixed and not set by the everchanging difference between market rents and the average of economic rents. Otherwise one would not be comparing like with like.

rental and market rent. Therefore, the capital gain would be large enough (invested at the long-term bond rate) to meet the cost of continuing to pay an allowance equal to the present concession each year into the future. There would be no additional net demands on the budget of meeting the expense of the Rent Allowance, contrary to Finance's assertion.³

16. Of course, some houses may not realise very much on being sold because they are near the end of their economic lives: but they, then, belong among the group which under the existing scheme would be eliminated in the future anyway.

17. The significant complexity that must be faced in reality is the fact that most of the houses are owned by the States and cannot be sold by the Commonwealth. In fact, these houses must be offered back to the States, whom, the Committee has been told, are entitled to demand that the interest payments on the loans outstanding on these dwellings should then be lowered to the current welfare housing interest rate of 4 per cent. Indeed Finance argued that in returning such houses to the States the Commonwealth would not only lose the advantages of low rents on them, but would also incur the additional loss involved in receiving lower repayments from the States. However, this fails to take account of all facts.

18. When the Commonwealth returns a dwelling to the States it effectively increases the size of its welfare housing program. In principle, the Commonwealth could argue that the dwelling is a substitute for a loan under the welfare housing scheme, and, if it chose to, it could reduce its loans by an amount equal to the current cost of one welfare house. If it does choose to act in this way, then it is clear that by giving back the service house the Commonwealth saves itself the cost of an interest subsidy of the difference between long-term bond rate (currently 10½ %) on a new loan and the welfare housing rate (4 %) applied to an old loan. This saving is enough to cover the cost of the Rent Allowance that must be paid to the serviceman who would otherwise have occupied the returned house plus any lowering of the repayment rate on the house if the original borrowing rate was above 4 %.

19. But will the Commonwealth, in fact, cut back on its other welfare housing loans when it hands back a defence stock house? This is an unknown, but by the same token it does not really seem to matter. If the Commonwealth chooses not to cut back on other loans then the net effect of its decision is to increase outlays on welfare housing by an amount equivalent to the cost of the Rent Allowance plus any additional interest repayments foregone, and this cost should be counted as a cost of its welfare housing program, not the defence housing scheme (and certainly not both). In other words, the expansion of the welfare housing program is a benefit to be offset against the costs in the defence program.

20. Whichever way one approaches the question of the cost of the Rent Allowances under the Committee's proposal, it seems to be perfectly clear that there is no substance in the suggestion that the Rent Allowance would result in a net drain on the budget whether looked at in short-run or long-run net budget terms.

3. There might be some short-run problems relating to the timing of the receipts, especially in attempting to avoid depressing the market prices, but nothing crucially hinges on this. In fact, in the long-run, the Commonwealth might do even better since market rents are often lower than one might expect because owners look to capital gains on their housing stock as an additional source of return.

4. Again the situation is complicated by the order in which houses are returned, and the fact that more recent CSHA and CSHA(S) dwellings have standards higher than the ordinary welfare housing. None of this matters to the essential principle.

APPENDIX 6. SUBMISSION FROM PROFESSOR R. L. MATHEWS

(Accommodation for Married Servicemen)

At the meeting which I attended on 4 May 1977, I undertook to let the sub-committee have my views in writing on the issues on which I was asked to comment. The two principal issues were:

(a) whether servicemen can be said to receive a subsidy if the rents they pay are less than market rentals but are nevertheless sufficient to recover historical capital outlays, with interest at the original borrowing rate, plus maintenance and other recurrent expenses;

(b) whether a change from the present accommodation arrangements to a system of cash rent allowances for married servicemen would be likely to impose additional costs on the Commonwealth budget.

2. In considering both these questions, it is useful to distinguish between the real cost of using resources and income transfers. Analysis is also assisted by distinguishing between decisions relating to the existing servicemen's houses and decisions relating to the provision of replacement or additional houses, although for some purposes the decisions necessarily interact with each other.

3. On the first question—whether there is a subsidy if rents charged are less than market rentals—*once a house is in existence the real cost of using it is the revenue thereby forgone*. At least until it is decided to dispose of the house, this is the market rental. If the rent actually charged is less than the market rental, there is a subsidy in the form of an implicit income transfer to the tenant of part of the real cost of making the house available. Put another way, once the house is in existence, the historical cost of the house (or indeed its current replacement cost) is irrelevant in determining the real cost of providing the accommodation. If the rent charged is below the market rental, the choice between historical cost, replacement cost and any other cost method of determining the amount charged is arbitrary and cannot disguise the fact that the shortfall below market rental is a subsidy. Current replacement cost (but not historical cost) becomes relevant in relation to decisions to acquire new houses or replace existing houses by construction or purchase.

4. It is largely a question of semantics as to whether the term subsidy should be reserved for actual cash outlays, and whether some other term—such as concession—should be used for indirect forms of assistance. My own view is that understanding is facilitated by the use of the terms implicit subsidy and explicit subsidy.

5. On the second question—whether a change to a system of cash rent allowances will involve a cost to the Commonwealth budget—the distinction between existing houses and replacement or new houses becomes important. If there is an increase in the number of married servicemen requiring accommodation, the choice is between constructing new houses, buying new or existing houses in the market, and renting houses in the market. Present value analysis involving the discounting of estimated cash flows may be used to determine the appropriate course of action, implicit or explicit subsidies being incorporated into the estimates of the cash flows.

Other things equal and for a given level of subsidy, the cheapest alternative is the one that should be preferred by both the government and the servicemen concerned.

6. Insofar as the Commonwealth budget is concerned, for a given level of subsidy the impact on the budget will be greater in the case of alternatives requiring capital outlays (construction or house purchase) than in the case of an alternative requiring only recurrent outlays (cash rental allowances). This is a matter of some significance at the present time, when the strains on the capital side of the budget are much more severe than is the case with recurrent transactions.

7. This question of budget outlays in a particular year is in any case independent of the question of which method of providing accommodation is cheapest in present value terms. If, as seems to be the case from the evidence submitted to the sub-committee, it is now more expensive to construct new houses than to buy or rent existing houses, a decision to construct rather than buy or rent will mean one of two things (or a combination of both). Either the cost to the Commonwealth will be greater (implying relatively larger subsidies than would be necessary if existing houses were acquired or rented in the market) or the cost to servicemen will be greater (implying a lower effective level of subsidies). The averaging process used to calculate rents under the Group Rent Scheme suggests that the latter will occur initially, because negative subsidies on new houses will partly offset the subsidies being received on old houses. However, if this process continues for some time, it might be expected to lead to a demand by servicemen for a higher level of subsidies.

8. In the case of existing servicemen's accommodation, the problem is complicated by the fact that most houses have been provided under the Commonwealth-State Housing Agreement at what amounts to a subsidy by the States. In effect, the implicit subsidy received by servicemen (resulting from the fact that rents actually paid have been less than market rentals) has been provided by the States (whose receipts fall short of market rentals by the same amount). It is therefore true that, if a serviceman occupying a CSHA house is offered an equivalent cash rent allowance as an alternative to his existing implicit subsidy, and if he vacates his house in favour of a house which he rents on the open market, the effect of that transaction considered in isolation will be to impose an additional cost on the budget equal to the amount of the cash rent allowance.

9. But the transaction should not be considered in isolation. If all tenants of existing CSHA houses were to vacate their houses under these circumstances, it would suggest that they place a lower value on the implicit subsidy than on the cash subsidy. This would mean that the real market rental is not as high as the one used to calculate the implicit subsidy, and it would be necessary to calculate the equivalent cash subsidy by reference to a more realistic market rent and implicit subsidy for existing houses. But to the extent that there is a switch from CSHA houses to houses rented in the open market, it remains true that there will be an additional cost to the budget unless the Commonwealth is able somehow to retain control over the implicit subsidies (for example, by converting the houses into welfare housing on the same terms). There will, of course, also be an additional cost to the budget if the cash rent allowance is extended to servicemen who at present receive no subsidy because they have provided their own housing.

10. If, as seems to be the case, much of the existing stock of CSHA houses is sub-standard and will shortly need to be replaced, any balance of financial advantage in respect of such houses will be lost, and the same arguments will apply as in the case of

new accommodation considered above. Under present circumstances, a system of cash rent allowances would seem to be preferable to replacement in terms of both present value cost comparisons and budget outlays. Moreover, as these older houses are phased out, the average rents charged for CSHA houses under the existing formula will rise towards the level of market rentals, thereby reducing any cost advantages of CSHA houses.

11. In the case of those houses which the Commonwealth has constructed itself outside the CSHA, a switch from Commonwealth ownership to a system of cash rent allowances does not imply any cost to the budget in present value terms. Other things equal, the present value of the rental forgone as a result of the implicit subsidy will be equal to the present value of the gain which will accrue to the Commonwealth by selling the house, which in turn will be equal to the present value of the equivalent cash rent allowance. But the impact on the budget in a particular year will of course differ depending on whether capital or recurrent transactions are involved.

12. These considerations all point to a conclusion that under present circumstances there will be advantages in moving towards a system of cash rent allowances. Because existing CSHA houses have some advantages in terms of their relative cost to the Commonwealth budget, and to avoid dislocation to the market, the transition to the new system should no doubt be gradual. It will presumably also be necessary for the Commonwealth to continue to provide houses to servicemen at subsidised rentals in those circumstances where the market cannot be expected to operate satisfactorily.

6 May 1977

APPENDIX 7. ACCOMMODATION CONCESSIONS FOR PUBLIC SERVANTS

In the course of the Inquiry Finance said that other Commonwealth employees also get similar or better concessions on housing.

2. The only areas of possible concern are rent allowances public servants receive, i.e. Regulation 97, and what public servants pay for renting Commonwealth owned dwellings. The former is given to public servants who are transferred in the public interest. Regulation 97 covers the higher initial costs of living and is given until the public servant finds his long term accommodation. Obviously servicemen will compare this allowance with what they get and to some extent this is justified. More importantly, however, what should be compared is the housing related disabilities of public servants and servicemen.

3. Public servants who rent Commonwealth owned dwellings pay rents set according to a whole host of alternative criteria. There does not appear to be a rationale for the present structure of rents.

4. The Committee is not in a position to say whether other Commonwealth employees get fewer or more housing concessions than servicemen. Suffice it to say, however, that money comparisons are, by themselves, insufficient. They have to be related to specific disabilities. But if the Committee or governments have to look at everything before doing anything then surely nothing will be accomplished!

5. The Committee will welcome a reference on housing concessions for Commonwealth employees (other than servicemen) from the House. This can be given to the Committee under Clause 1 (d) of its terms of reference.

APPENDIX 8. CALCULATION OF REDUCTIONS IN BUDGET OUTLAYS

Using Exhibit 21 we have calculated that at 30 June 1977 work-in-progress on CSHA (S) houses would be \$31.672m. Defence is not able to tell us how much cash would be needed for new CSHA programs commenced in 1977-78. On the basis of 1976-77 figures we estimate the cash requirement to be \$6m.

2. The reductions in budget outlays in 1977-78 that would result from our proposals is this \$6m plus the \$1.2m for the Department of Construction and \$5.4m for the Department of Administrative Services (See Table No. 1).

3. On the basis of the CSHA figure for 1977-78 in Table 1, reduced by \$6m expenditure on CSHA in this year would be \$24.5m leaving a balance of \$7.172m for 1978-79. The reductions in budget outlays in this year would be \$20,528m for CSHA (\$27.7m minus \$7.172m) and \$7.2m for the other sources of housing giving a total of \$27.728m.

4. In 1979-80 the reductions in budget outlays would be the total of the first 3 columns of Table 1, i.e. \$30.6m.

5. The total reductions in budget outlays for the three years is \$70.9m or the equivalent of 1842 houses (at \$38,500 a house). At paragraph 37 we estimate costs of future programs at \$260m for 6770 houses. To estimate the reductions of outlays in the future we have subtracted the 1842 houses, since they have been accounted for. This gives us 4928 houses at a cost of about \$190m. When we add the \$25m* for the A.C.T. houses the total is \$215m.

6. We point out once again that the figures are not 'pure' savings because the monies are returned over 53 years with interest. Our figures do not allow for the return of these monies.

* 900 houses at \$23,000 a house plus our estimate of \$7,000 a block of land.