

1969

DEPARTMENT OF THE SENATE
PAPER NO 552
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PRESENTED <i>J.R. D. Jones</i>
of the Senate

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ONE HUNDRED AND NINTH REPORT

THE SUPPLEMENTARY REPORT OF
THE AUDITOR-GENERAL—
FINANCIAL YEAR 1967-68

JOINT COMMITTEE OF PUBLIC ACCOUNTS

SEVENTH COMMITTEE

R. Cleaver, Esquire, M.P. (Chairman)

Senator J.F. Fitzgerald (Vice-Chairman)

Senator J.J. Webster	F.W. Collard, Esquire, M.P.
Senator Dame Ivy Wedgwood	J.F. Cope, Esquire, M.P. (1)
	J.D.M. Dobie, Esquire, M.P.
	E.M.C. Fox, Esquire, M.P. (3)
	G.H. Gray, Esquire, M.P. (2)
	D.S. Jessop, Esquire, M.P. (4)
	E.W. Peters, Esquire, M.P.
	I.L. Robinson, Esquire, M.P.

The Senate and the House of Representatives appointed their
Members on 22nd February, 1967.

- (1) Appointed 23rd August, 1967.
- (2) Deceased 2nd August, 1967.
- (3) Resigned 26th February, 1969
- (4) Appointed 26th February, 1969.

DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951-1966 reads as follows :-

8. The duties of the Committee are -

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the Audit Act 1901-1950;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit; any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS
One Hundred and Ninth Report
The Supplementary Report of the Auditor-General
Financial Year 1967-68

Chapter 1.

Introduction.

The first duty of Your Committee as set down in Section 8 of the Public Accounts Committee Act 1951-66 is:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1) of section fifty-three of the Audit Act 1901-1950.

The second duty of Your Committee is:

- (b) to report to both Houses of the Parliament with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them to which the Committee is of the opinion that the attention of the Parliament should be directed.

2. Each year since 1959 Your Committee has conducted a separate series of inquiries related specifically to matters raised by the Auditor-General in his Reports to the Parliament.

3. The results of Your Committee's inquiry into the Report of the Auditor-General for 1967-68 were presented to the Parliament in our One Hundred and Fifth Report.

P.P.No. 12
of 1969

4. The Supplementary Report of the Auditor-General for 1967-68 was presented to the Parliament on 19 November, 1968. Following its examination of that Report, Your Committee obtained written submissions from several departments and from these, a selection of matters was made for detailed examination.

5. The Items which were selected for detailed examination and which are referred to in Chapters 2 and 3 of this Report, were made the subject of a Public Inquiry held at Parliament House, Canberra, on:

Tuesday 18 March, 1969
Thursday 20 March, 1969.

6. The following witnesses were sworn at the Public Inquiry and were examined by Your Committee:

Australian Egg Board

Mr. W. R. Whiting - General Manager, Council of Egg Marketing Authorities for Australia.

Department of Housing

Mr. A. H. Goss - Acting Director of Finance
Mr. K. D. A. Medbury, O. B. E. - Director of War Service Homes.

Department of Primary Industry

Mr. C. W. Hanley - Chief Marketing Officer, Egg Section, Dairy Produce, Eggs and Special Projects Branch, Marketing (Animal Products) Division.

7. During its inquiry Your Committee was assisted by the following Observers:

Mr. W. H. Scott - Auditor-General's Office.
Mr. R. McLeod - Public Service Board.
Mr. C. T. Monaghan - Department of the Treasury.
Mr. C. M. Beer }
Mr. D. P. Cleary } - Department of Primary Industry.

Chapter 2

Australian Egg Board

8. Paragraph 37 of the Auditor-General's Supplementary Report for 1967-68 contained the following comment:-

"Paragraph 183 of my Report dated 20 August 1968 mentioned that the accounts and records of the financial transactions of the Australian Egg Board had been inspected and audited during the year, and that it was expected that the Board's financial statements for the year ended 30 June 1968 would be available for inclusion in the Supplementary Report.

The Board has since advised its inability to present the statements in time for inclusion in this Report owing to delays occasioned by certain operational and administrative circumstances."

9. The Australian Egg Board is constituted under the Egg Export Control Act 1947-1966. It is a regulatory and trading organisation and was established to integrate into one body the Export marketing of Australian eggs thus eliminating competition between the states. The Board comprises nine members; six of whom are members of, and nominated by the State Egg Boards; one member with commercial experience; one member to represent employees engaged in handling, grading and processing of eggs, and one member who is the Chairman representing the Commonwealth Government.

Exhibit
109/1 and
Qs 4, 12
and 40

10. We were informed that under the terms of the Egg Export Control Act, the Australian Egg Board exports eggs and egg products on behalf of any State Egg Board which wishes to avail itself of the Board's facilities. Each year the States individually determine whether or not they will market their eggs through the Commonwealth Board. Prior to 1965-66 all States pooled their exports through the Australian Egg Board in some years. In other years, all States except New South Wales pooled their exports through the Australian Egg Board and in some years Western

Exhibit
109/1 and
Qs 7, 8, 9
and 38

Australia marketed its shell eggs independently. That State had a special market of its own in the Persian Gulf and considered it could obtain a better return from that market rather than pooling the returns from the low-price British market. However, following the implementation of a plan by the Council of Egg Marketing Authorities of Australia, which brought all States within a single arrangement, the States have pooled their exports through the Australian Egg Board from the commencement of the 1965-66 season.

Exhibit
109/1
and
Qs.
7,8,9

11. We were informed that while the Board is required by section 23 of the Egg Export Control Act to report on the operation of the Act, there is no specific requirement as to what should be contained in its annual reports. As the Board finds it administratively difficult to prepare and submit its annual report in time for debate on the Budget each year it submits an interim Report as early as practicable in the Budget Session of Parliament. This is followed by the submission of an Annual Report when the Board is able to provide it. We were told that these administrative difficulties have arisen from problems associated with the co-ordination of accounts which are peculiar to egg marketing. These problems were said to include the large amounts of unsold eggs at the end of each financial year and the need to obtain overseas as well as Australian accounts for checking.

Exhibit
109/1 and
Qs. 18 and
20.

12. We were informed that an expansion of work without engagement of additional staff had contributed to the late preparation of financial statements in 1967-68. This expansion is illustrated by the details of exports of shell eggs and egg products shown in Table No. 1.

Exhibit
109/1 and
Q.22

Table No. 1
Australian Egg Board
Export of Shell Eggs and Egg Products.
(1963-64 to 1967-68)

Year	Volume
	Million dozen equivalent
1963-64	11.5
1964-65	20.1
1965-66	17.1
1966-67	20.8
1967-68	30.3

Source: Australian Egg Board.

13. In addition it was stated that trade with Britain and Japan has expanded, involving a multiplicity of shipments and documentary control. Further, a considerable proportion of trade with Japan has been by means of consignment stock which demands constant oversight of the Japanese market. In this regard we were informed that in 1967 arrangements had been made for the staff of the Australian Egg Board to attend to all Australian shipments, releases from cold stores and the preparation of invoices, bank clearances, customs declarations and other documents which, in previous years had been undertaken by the State Egg Boards. This had involved considerable work and had placed a strain on the Board's staff.

Exhibit
109/1
and Q.26

14. It was stated that in 1967-68 changes had occurred at the General Manager and Secretary levels of the Board. Both new appointees were drawn from the Egg Marketing Board of New South Wales and for a period of 12 months they were engaged in the work of both Boards.

Exhibit
109/1 and
Qs. 14, 15, 24 to
45.

In addition both officers were required to devote a considerable amount of time to the affairs of the Council of Egg Marketing Authorities.

15. In May 1968 the health of the General Manager failed and for some weeks he was absent from duty. A further complication arose when the Board's representative in Britain resigned with effect from 30 June 1968 and its Pacific area representative resigned as from 31 July, 1968. On the recommendation of the General Manager who was on sick leave the Egg Board directed that its Secretary be sent overseas for 3 months to interview nominees for the vacant position in London, to advise the Board on the appointment of a nominee and to fill the position in London until an appointment was made. In fact a new appointment was not made and the problem was resolved by the Egg Board arranging to be represented by the Staff of the Australian Meat Board in London. The Secretary returned to Australia in September, 1968 and at this stage the executive officer (shipping) necessarily replaced the Pacific area representative on a visit to the Persian Gulf area. A full time replacement for that officer has not been made as it is considered that there is insufficient work to justify a full time appointee in the Pacific area.

Qs. 14, 36,
66 and 67

16. We were also informed that the devaluation of sterling and other currencies in November 1967, brought about a marked increase in the workload of the Board's Accounts Staff. First, there had been the work involved in obtaining devaluation compensation made available by the Commonwealth Government for immediate losses suffered on devaluation and for post devaluation marketing losses. It was claimed that in an endeavour to obtain these payments as early as possible, the Board's Accounts Staff has had some difficulty in preparing the necessary documents to support claims to the Reserve Bank of Australia and the Department of Primary Industry. Secondly, the Board is involved in additional work associated with forward exchange insurance cover against further currency devaluation. This was said to be routine work dealing with any shipments made by the Board and which are likely to be affected

Exhibit
109/1 and
Qs. 48 to
59

by the devaluation of Sterling, Japanese Yen or United States Dollars. Sales are made in each of these currencies. On each shipment the expected funds are assessed in Australian currency and insured by declaration against any possible effects of devaluation in any of the countries concerned.

17. The Department of Primary Industry Observer, Mr. Beer, outlined for us the devaluation position with particular reference to egg marketing. He informed us that devaluation payments are divided into two categories. The first of these relates to situations in which industries have suffered an immediate loss from contracts entered into or goods that were in the process of sale at the time of devaluation. It had been decided that these losses would be claimed by the industry concerned through the Reserve Bank of Australia which would calculate a notional premium and would pass the claim to the Commonwealth for further examination and ultimate payment. The second category of devaluation payments relates to devaluation experienced from the marketing of products in the post-devaluation period i.e. subsequent to 17 November, 1967. For these payments the Government laid down specific criteria for each primary industry. One criterion, which applied to the egg industry, was that the devaluation payment would be assessed on the difference between the f.o.b. return from sales immediately prior to devaluation and the f.o.b. return from sales subsequent to devaluation for each shipment. In these circumstances the Egg Board must make an assessment of each shipment of eggs to obtain the f.o.b. return so that it can be measured against the minimum f.o.b. return obtained immediately prior to devaluation. While other primary industries to which this criterion applied experienced little difficulty with this arrangement, it posed particular problems for the egg industry which has consignment and slow-moving stocks in overseas markets.

Qs. 91 and
92

18. We were informed that the problems of currency devaluation had imposed on the Egg Board's Accounts staff a considerable degree of additional work outside its normal operations. Were such a work demand to be of a continuous nature, the General Manager would be compelled to recommend to the Egg Board that additional full-time staff be employed. However,

Exhibit
109/1
60

it was said that the immediate workload problem is being met by the existing staff working overtime at a level equivalent to 20 per cent of the cost of one additional officer.

19. We questioned the witness specifically in relation to the staff of the Board and its adequacy. We were informed that the staff comprises 14 positions as shown in Table No.2 .

Qs.27 to
32.

Table No.2
Australian Egg Board
Staff Structure as at 18 March, 1969.

Designation.	
(Male)	(Female)
General Manager	Secretary to the General Manager
Secretary	Secretary to the Secretary
Executive Officer (Shipping)	Secretary to the Accountant and Executive Officer (Shipping)
Assistant to Executive Officer (Shipping)	Book-keeping Machine Operator
Accountant	Typist for the Executive Officer (Shipping)
Assistant Accountant	Junior Receptionist.
Clerks (2 positions)	

Source: Australian Egg Board.

20. Although no increase has been sought in the staff of the Board, proposals have been initiated to improve its administrative flexibility. Due to the health and age of the General Manager it is proposed that a suitable junior appointment to the staff should be made to understudy him. The assistant to the accountant has been encouraged to complete his accountancy studies so that he will be qualified, if need be, to replace the Accountant. Junior male staff are also being trained to assume the responsibilities of senior male staff at any time, if required. It was said that as the Egg Board is now operating in conjunction with the Meat Board in London the staff available at that location is adequate to meet any future contingency.

Qs.74 and 76

CONCLUSIONS

21. Your Committee's inquiry into this matter arose from the failure of the Australian Egg Board to complete its financial statements in time for their inclusion in the Auditor-General's Supplementary Report for 1967-68. Over many years Your Committee has taken a very serious view of such failures on the part of Statutory Authorities and has often found, when it has conducted inquiries in this area, that these failures have arisen from administrative defects in the Authority concerned.

22. It appears to Your Committee from the evidence tendered that a number of factors affected the ability of the Australian Egg Board to complete its financial statements for 1967-68 in time for their inclusion in the Auditor-General's Supplementary Report. These factors included an expansion of the work of the Board without additional staff; staff changes in the managerial level of the Board; resignations of overseas staff; staff illness and problems arising from the devaluation of sterling.

23. The evidence shows that, following the implementation of a plan by the Council of Egg Marketing Authorities of Australia, all States pooled their exports of eggs through the Australian Egg Board from the commencement of the 1965-66 season and from 1967-68 arrangements were

made for the staff of the Australian Egg Board to attend to all Australian Shipments which in previous years had been undertaken by State Egg Boards. Your Committee accepts that such a transfer of work would place a strain on the Board's staff resources and believes that the Board should have examined its staff structure critically before accepting this increased work commitment.

24. In 1967-68 changes occurred at the General Manager and Secretary levels of the Board. Both new appointees were drawn from the Egg Marketing Board of New South Wales and for a period of twelve months were engaged in the work of both Boards as well as in the work of the Council of Egg Marketing Authorities. Your Committee believes that the Egg Marketing Authorities concerned should have ensured that these transfers at the managerial level were effected quickly and smoothly.

25. The events which followed the resignation of the Egg Board's representatives in London and the Pacific area are matters for some concern. The Secretary of the Board was sent to London to interview nominees for the vacant position there, to advise the Board on a suitable nominee for the position and to fill the position on a temporary basis. In fact a new appointment was not made and the problem was resolved by the Egg Board arranging to be represented by the staff of the Australian Meat Board in London. As this appears to be satisfactory it raises the question as to whether such an arrangement should not have been entered into in previous years. As the Australian Meat Board has a staff of four located in London a single resignation from that staff would not have left the interests of the Australian Egg Board wholly unprotected. Similarly, it is noted that while the resignation of the Board's Pacific Area representative required the presence of the Executive Officer (Shipping) in the Persian Gulf area, it is not proposed to re-appoint a full-time representative in the Pacific area. In these circumstances Your Committee believes that the Egg Board should examine critically the nature of its representation overseas.

26. It appears from the evidence that while the problems arising from the devaluation of sterling were wholly beyond the control of the

Board they imposed a considerable amount of additional work on the Board's staff in 1967-68. Your Committee believes that the Department of Primary Industry could, with advantage, re-examine the criteria relating to post-devaluation payments as they affect the Egg Board with a view to assisting the Board as far as possible with its problems in this area.

27. Finally, we would commend the Egg Board and its newly appointed management for the action taken to increase the efficiency of its staff through on-the-job training and by encouraging the completion of qualifications within its accounting area. Your Committee believes that such action should, in the long term, provide the Board with greater staff flexibility to meet its problems in the future.

Chapter 3

War Service Homes Insurance Trust Account

28. In paragraph 11 of his Supplementary Report for 1967-68 the Auditor-General stated:-

"The War Service Homes Act 1918-1966 provides that all dwellings in which the Director has an interest shall be insured under the War Service Homes Insurance Scheme. On application, persons who have discharged their liability to the Director may continue to have their dwellings insured under the Scheme.

The Insurance Scheme is self-supporting and bears its proportion of administrative costs, contributions to fire brigade boards and payments of claims from premiums paid by the purchasers and borrowers.

A comparison of receipts and expenditure of the Trust Account for the years 1967-68 and 1966-67 is set out hereunder -

	1967-68	1966-67
	\$	\$
Balance 1 July	1,576,061	1,716,166
Receipts -		
Premiums	783,934	769,799
	<u>2,359,995</u>	<u>2,485,965</u>
Expenditure		
Adjustment of claims	668,685	493,511
Administrative expenses ..	355,627	341,967
Contributions to fire brigade boards	71,325	74,426
Balance 30 June	<u>1,264,358</u>	<u>1,576,061</u>
	<u>2,359,995</u>	<u>2,485,965</u>

The total sum insured at 30 June 1968 was \$1,585,444,969, compared with \$1,533,139,269 at the close of the previous year. Cover notes for an additional \$9,166,949 were current at 30 June 1968."

29. From its commencement in 1919 the War Service Homes Act and Regulations have provided that all dwellings in which the Director has an interest shall be insured under the War Service Homes Insurance Scheme. The legislation was amended in 1948 to enable purchasers and borrowers who had discharged their liability to continue the insurance of their homes, on a voluntary basis, under the scheme.

Exhibit
109/2 and
Qs. 98 to
102

30. It was stated that the purpose of the scheme is to provide War Service Homes purchasers and borrowers with insurance cover on their homes at rates as near to cost as possible, and at the same time to maintain sufficient in reserve to meet contingent liabilities. It is a co-operative, non-profit scheme financed from its inception completely by premiums paid by War Service Homes purchasers and borrowers without financial assistance from the Commonwealth.

Exhibit
109/2 and
Qs. 103 to
106

31. The legislation provides for the Director of War Service Homes to determine the amount of insurance cover and the premium payable for the insurance. The premium payable is assessed each year having regard to the anticipated results for the ensuing year and the position of the reserve fund, and after consultation with the Commonwealth Actuary. The amount held in the Reserve Fund is based on a formula provided by the Commonwealth Actuary to determine a desirable reserve. The formula provides for a general reserve, a reserve covering outstanding claims and a reserve in respect of unexpired premiums.

Exhibit
109/2,
Q. 108 and
Committee
File 1968/9

32. We questioned the witness as to whether in fact the reserve fund is financed wholly from premium income or whether it includes any elements of Government finance. We were informed that the reserve fund has been held by the Commonwealth for fifty years but prior to 1968 it did not attract payments of interest from the Commonwealth. In earlier years when the balance in the fund was relatively small, the view had been taken that the Government might be called upon to support the fund financially and in these circumstances it was reasonable that the Commonwealth should obtain the benefit of the interest

Exhibit
109/2 and
Qs. 124, 127,
149 and 192

derived from the investment of the fund. On the basis of fifty years experience during which the Commonwealth had not been required to make a contribution, however, it had been recognised recently that as the fund comprises contributions by purchasers and borrowers, interest on the investments should be credited to the Fund.

33. The Treasury Observer, Mr. Monaghan, informed us that section 40 (1.) of the War Service Homes Act provides that there shall be a War Service Homes Insurance Trust Account which shall be a Trust Account within the meaning of Section 62A of the Audit Act. This means that the Trust Account concerned is part of the Commonwealth's Trust Fund. The War Service Homes Act, however, does not provide the authority for the investment of the War Service Homes Insurance Trust Account. The relevant authority is that applying to the Trust Fund generally under section 62B of the Audit Act. Section 62B(3.) of the Audit Act provides that except where otherwise provided in any Act any interest received from the investment of any moneys standing to the credit of the Trust Fund shall be paid to the Consolidated Revenue Fund. As a result of a recent Government decision, however, a Bill was introduced into the Parliament in 1968 providing that interest should be paid on the balance standing to the credit of that account during 1968-69.

Qs/146-150

34. The witness informed us that the risks for which insurance cover are provided are set out in section 38 of the War Service Homes Act and Regulation 19. They include all risks covered in most comprehensive insurance policies and certain other risks such as floods and depredation of white ants and borers for limited periods, for which Insurance Companies normally apply a premium loading.

Exhibit
109/2 and
Qs/152 to
155

35. It was stated that all costs of administration are charged to the War Service Homes Insurance Trust Account and in conformity with the practice of other insurers, contributions, to the extent

determined by the State Fire Brigade Boards, are made towards the cost of fire fighting services. These contributions are governed by the State legislation which lays down the manner in which they shall be assessed. Broadly, the contributions are based on a percentage of the premium income which may be attributable to fire insurance risk. By comparison with the position in the States, however, we were informed that there is no legislative provision in the Australian Capital Territory requiring insurers to contribute towards the cost of fire fighting services.

Exhibit
109/2. Qs.
165, and 179
to 183.

36. Details of variations that occurred in the balance of the War Service Homes Insurance Trust Account as at 30 June 1962 to 1968 are shown in Table No.3.

Table No.3
Department of Housing
War Service Homes Insurance Trust Account.

Exhibit
109/2
Q.184 and
Committee File
1968/9.

Balance as at 30 June.	Amount
	\$
1962	1,671,124
1963	1,661,202
1964	1,697,740
1965	1,663,216
1966	1,716,166
1967	1,576,061
1968	1,264,358

Source: Department of Housing.

37. We were informed that the Commonwealth Actuary was consulted regarding the position of the Reserves in the Account as at 30 June, 1968. He reported that the following reserves were required at that date:

		\$	
a)	Outstanding claims	239,954	
b)	Unexpired premiums	392,000	
c)	General Reserve	<u>1,023,653</u>	
	Total:	\$1,655,607	Exhibit 109/2 Qs. 185 to 189, 195 to 197 and Committee File 1968/9

The General Reserve is held to cover catastrophes and to provide a general backing to the scheme.

38. It was stated that the desirable general reserve is considered by the Commonwealth Actuary to be sufficient to provide for any catastrophe. Occurrences during the two and one half years prior to our inquiry which could be considered catastrophes and their cost to the War Service Homes Insurance Fund were:

a)	Tasmanian bushfires	\$213,000	
b)	Hail and Tempest storms in Queensland	\$290,000	Exhibit 109/2 and Committee File 1968/9
c)	Western Australia earthquake	\$150,000 (Est)	

It was claimed that after payment of exceptionally heavy claims in 1966-67 and 1967-68 from Tasmania and Queensland the actual reserve stood at \$1,334,358 at 30 June 1968 thus indicating that the reserves were adequate at that date.

39. In regard to the premium rating system on War Service Homes Insurance we were informed that until 1949-50 the system adopted had followed the rating basis adopted by private insurers i.e. separate premiums were applied for timber and brick houses. In 1949-50, however, the reserve fund had reached such a level that a rebate of 33 $\frac{1}{3}$ per cent was granted in assessed premiums and this was increased to 66 $\frac{2}{3}$ per cent in later years. When funds in the reserve were depleted as a result of

Q.118

claims following earthquakes in South Australia the rebate was reduced to 50 per cent over the years 1954-55 to 1955-59 but was then restored to 66 2/3 per cent after the balance in the reserve fund had recovered.

40. In the early nineteen sixties a decision was taken that the basis of the rating system should be examined as it was apparent from experience that substantial profits were being made in States where building is predominantly of timber while considerable losses were being incurred in States where building is predominantly of brick. The examination that was made took into account not only the question of whether there was justification for a differential loading between different types of construction but also whether loadings imposed by private insurers on the basis of proximity to fire brigades was justified and whether a strictly proportionate system of rating based on the amount of cover should be designed. The survey revealed that whereas the premium rating scheme was based on the assumption that fire would be the major cause of damage, only 42 per cent of claims against the fund had arisen from that cause. Administrative costs were found to constitute about 60 per cent of total costs and these costs remain constant irrespective of the type of house insured. In the light of the survey the conclusion was reached that there was no basis for drawing a distinction between various types of construction in the fixing of insurance premiums. We were informed, however, that while under the regulations made in accordance with the War Service Homes Act, the Director has power to determine premiums, his determinations are subject to ministerial direction. Although proposals to change the premium rating system were put forward, it had been decided that a change should not be made at that stage.

Qs. 120, 158,
197, 204 and
221.

41. We were informed that during 1967-68 action was taken to review the premium rating system to achieve a more equitable distribution of the costs under the War Service Homes Insurance Scheme. The opportunity was also taken to include in the Scheme an additional loading in each premium to provide for a gradual re-establishment of the reserve fund to offset the deficits incurred in the previous two financial years. It was stated that the new premium rating system, which

Exhibit
109/2,
Qs. 121, 204
and Comm-
ittee File
1968/9

was introduced with effect from 1 July 1968 is entirely different to that of private insurance companies and was adopted after a thorough investigation by the Commonwealth Actuary and the Department of Housing. While the investigation confirmed that risks do not vary greatly according to the type of construction, it indicated that a completely flat scale of premiums per house may not be entirely justified.

42. Under the new system premiums are compiled on the basis of -

- a) \$2 per certificate to cover administrative expenses.
- b) \$0.90 per certificate to cover claims up to \$200. (In two years to 30 June 1967, 96 per cent of claims were for amounts under \$200)
- c) A claim charge of \$0.27 per \$2,000 of cover and
- d) A reserve component of \$0.13 per \$2000 of cover.

The premiums increase by the amounts of 27 cents for claim charges and 13 cents for reserve component for each additional \$2,000 of cover.

43. We were informed that the desired reserve of \$1,655,607 under the Commonwealth Actuary's formula at 30 June 1968 compares with an estimated premium income on the new premium rating system of \$936,000 in 1968-69 and represents one and two-thirds of one year's premium income. By comparison, reserves of between one-half and one and one-half times one year's premium income are normally held by private insurance companies. It was said that the Commonwealth Actuary considers the premium income to be sufficient even though reserves have been declining and the actual reserve at 30 June 1968 was less than the desired level of \$1,655,607 based on his formula.

Committee
File
1968/9

44. It was stated that the new premium structure is designed to provide a more equitable distribution of costs under the War Service Homes Insurance Scheme so that each applicant will meet his share of the costs of administration and claims. It is also designed to provide for an increase in the reserve fund consistent with the increase in the total amount of cover and to provide for the rebuilding of the actual reserve

as necessary, to the desired amount by the addition of a further amount to the reserve component. In 1968-69 this additional amount is 10 cents per \$2,000 of cover, to provide an estimated increase in premium income of \$88,000 per annum. We were assured by the witness that the determination of premiums for 1969-70 would be considered in consultation with the Commonwealth Actuary on the basis of expenditure in 1968-69, the balance of the fund as at 30 June 1969 and contingent expenses by way of unpaid claims at that date.

Exhibit
109/2.
Qs. 121,
204, 207,
208 and
C'ttee
File
1968/9

45. We were informed that while premium rates determined under the War Service Homes Insurance Scheme are lower than premium rates of private insurance companies, a general comparison is difficult as the War Service Homes Insurance Scheme is a non profit organisation. In addition, it is not required to pay commission, taxation or stamp duty and its expenses are less than those of private insurance companies particularly as no policy writing is involved.

Qs. 104 to
107, 111, 119
to 122,
159 to 164
172 to 177
and C'ttee
File 1968/9

CONCLUSIONS

46. From its commencement in 1919 the War Service Homes Act and Regulations have provided that all dwellings in which the Director has an interest shall be insured under the War Service Homes Insurance Scheme. The legislation was amended in 1948 to enable purchasers and borrowers who had discharged their liability to continue the insurance of their homes, on a voluntary basis under the scheme. The Scheme is intended to provide War Service Homes purchasers and borrowers with insurance cover on their homes at rates as near to cost as possible and at the same time to maintain sufficient in reserve to meet contingent liabilities. It is a co-operative, non-profit scheme financed from its inception wholly by premiums paid by War Service Homes purchasers and borrowers.

47. Your Committee noted that the balance in the War Service Homes Insurance Trust Account had declined from \$1,576,061 as at 30 June 1967 to \$1,264,358 as at 30 June, 1968 while the value of houses insured

under the scheme had increased from \$1,533,139,269 to \$1,585,444,969 .
over the same period.

48. The evidence shows that in recent years there have been a number of events which have resulted in substantial increases in War Service Homes insurance claims costs which have contributed to reductions in the balance of the Trust Account since June, 1966. In particular, claims arising from bushfires in Tasmania totalled \$213,000, hail and tempest storms in Queensland, \$290,000 and earthquakes in Western Australia about \$150,000. After consultation with the Commonwealth actuary, however, action was taken in 1967-68 to re-cast the premium rating system to achieve a more equitable distribution of the costs under the War Service Homes Insurance Scheme with effect from 1 July, 1968. Concurrently the opportunity was taken to include an additional loading in each premium to provide for a gradual re-establishment of the reserve fund to the level of \$1,655,607 which was regarded as adequate by the Commonwealth Actuary. Your Committee believes that the Director of War Service Homes should continue to consult the Commonwealth Actuary, on a regular basis, in relation to the adequacy of the reserve fund. In view of the importance of this matter, Your Committee will note the variations that have occurred in the balance of the War Service Homes Insurance Trust Account as shown by the Auditor-General in his Reports to the Parliament.

49. The evidence showed that while the War Service Homes Insurance Trust Account has been held by the Commonwealth for fifty years, it did not attract payments of interest from the Commonwealth prior to 1968. In earlier years when the balance in the fund was relatively small, the view had apparently been taken that the Government might be called upon to support the fund financially and in these circumstances it was reasonable that the Commonwealth should obtain the benefit of the interest derived from the investment of the Fund. As the Commonwealth has not been required to make a contribution and as the fund comprises contributions by purchasers and borrowers under the War Service Homes Scheme Your Committee would commend the decision taken in 1968 to credit to the Trust Account, interest on the investment of that Account with effect

from 1968-69. Your Committee feels, however, that this action should have been taken sooner.

50. A further matter to which Your Committee would make reference is the fact revealed in evidence that while insurance companies are required to contribute to the costs of fire fighting services in the States, evidently no contribution is required to be made towards the costs of fire fighting services in the Australian Capital Territory. Your Committee believes that this matter should be examined carefully by the authorities concerned.

For and on behalf of the Committee.



DAVID N. REID
Secretary,
Joint Committee of Public Accounts,
Parliament House,
Canberra.

15 May, 1969



RICHARD CLEAVER
Chairman.

