

1922.

VICTORIA.

REPORT

FROM THE

COMMITTEE OF PUBLIC ACCOUNTS

(CLOSER SETTLEMENT AND DISCHARGED SOLDIERS
SETTLEMENT FUNDS).

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EXTRACTED FROM THE VOTES AND PROCEEDINGS.

TUESDAY, 1st AUGUST, 1922.

11. PUBLIC ACCOUNTS COMMITTEE. Motion made and question: That the following Members form the Committee of Public Accounts during the present Session:—Mr. Bailey, Mr. Gordon, Mr. Groves, Mr. Lennon, Mr. Mackrell, Mr. McDonald, and Mr. Webber; and that the Committee have leave to sit on days on which the House does not meet; three to be the quorum (*Mr. Lawson*)—put and agreed to.
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R E P O R T.

THE COMMITTEE OF PUBLIC ACCOUNTS has the honour to report to your Honorable House as follows:—

CLOSER SETTLEMENT AND DISCHARGED SOLDIERS SETTLEMENT FUNDS.

1. In his last Annual Report Mr. J. A. Norris, State Auditor-General, drew attention to the powers given under various legislative enactments to Boards and Commissions for the expenditure of large sums of public moneys. This expenditure was growing, and it raised the important question of the control which Parliament is expected to exercise over the disbursement of these moneys. For instance, section 14 of the *Closer Settlement Act 1915* states that all moneys received by the Closer Settlement Board shall be paid into the Closer Settlement Fund, and that the moneys in that fund may, without any further authority from Parliament, be applied by the Board to (a) the redemption of stock or debentures issued for closer settlement purposes and the payment of interest thereon; (b) payment for land acquired by the Board; (c) the expense of surveying, subdividing, clearing, draining, fencing, improving the land, providing roads or access, erecting buildings, &c.; (d) costs and expenses of administering the Act, including any losses and working expenses; (e) payment of salaries of the Board; (f) making advances to lessees of Closer Settlement lands and to municipal councils; and (g) payment for building and fencing materials, implements, live stock, seeds, &c. Section 30 of the *Discharged Soldiers Settlement Act 1917* states that all moneys received by the Closer Settlement Board in respect of soldier settlement other than the proceeds of the sale of stock or debentures issued under that Act is to be paid into the Discharged Soldiers Settlement Fund, and may be applied by the Board in furtherance of settling soldiers for purposes similar to those stated in connexion with the Closer Settlement Fund.

2. The State Auditor-General went on to say that the law does not require the Closer Settlement Board to submit to the Legislative Assembly annual estimates of these expenditures out of the specific funds stated or estimates of the income to provide for such expenditures. To that extent Parliament did not exercise the same control over these public moneys as it did over direct appropriations of the Consolidated Revenue. This was a departure from a wholesome constitutional practice, and Mr. Norris suggested that it might be remedied by estimates of both the income and expenditure of these funds being submitted in an addendum to the ordinary Estimates for the financial year and a divisional item for a nominal amount (£1) included in the Votes of the Minister of Lands. Such a course, he said, would afford Parliament the opportunity of reviewing the particulars in the addendum when the Estimates for the year were before the House. He added that the responsibility placed upon the taxpayer to make good deficiencies in those funds, the increasing number of officers in the employ of the Board, and the growth generally in its expenditure (which is not included in the Treasurer's Statements of Revenue and Expenditure) are of sufficient importance to warrant an alteration in the present methods, in order that these expenditures may be subject to review by Parliament.

3. Your Committee heard evidence on this matter from Mr. Norris, and also from Mr. W. McIver, Chairman of the Closer Settlement Board and Director of Soldiers' Settlements. The former stated that for the year ended 30th June, 1921, the expenditure out of the annual income earned or accruing to the Closer Settlement Fund, exclusive of loan expenditure, was as follows:—

Interest payments	£176,782
Other expenditure	61,775
	£238,557

Included in the £61,775 were the salaries of officers engaged in the Closer Settlement Branch, their travelling expenses, and the general incidental expenses in connexion with the administration of the Closer Settlement Act. For the year 1920-21 the expenditure out of the annual income of the Discharged Soldiers Settlement Fund, exclusive of loan expenditure, was as follows:—

Interest payments	£463,878
Other expenditure	198,324
	£662,202

4. Mr. Norris stated that Parliament had no means of knowing prior to that expenditure being made how the money was to be spent or what was likely to be the amount expended during the year. These matters were left to the administration of the Board. He thought that estimates of the proposed expenditure should be prepared and placed before the Legislative Assembly annually, in order that Parliament might be informed of the proposals and the methods by which it was intended to finance these funds. They were public moneys, and ought, he said, to be subject to review by Parliament, which should be furnished with particulars showing whether the estimated incomes were adequate to provide for the proposed expenditures and, if they were insufficient, how it was intended to meet the shortage. He added that carefully-prepared estimates of income and expenditure are important safeguards on the disbursement of public moneys. But Parliament was not advised of the financial position of these funds till months after the expenditure had been incurred, the annual statements of these accounts being prepared after the close of the financial year and presented to Parliament usually late in the Session. It is only when grants have to be increased, or additional provision is required to augment specific funds, that Parliament is furnished with a forecast of the proposed expenditure and of the estimated additional provision necessary to make good past and prospective shortages.

5. Mr. McIver informed your Committee that no good purpose would be served by the adoption of the suggestion of the State Auditor-General to have the estimates of the expenditures referred to submitted annually by the Closer Settlement Board to Parliament. Indeed, he thought harm would result from such a course, inasmuch as the Board would in these estimates have to disclose that it expected during the year to pay away a much larger sum than in the preceding year for interest. That would be a plain indication to the public that the Board intended during the current year to expend large sums of borrowed moneys in the purchase of estates for soldiers' settlements, which would cause the price of land to be raised against the Board when it sought to make purchases. Parliament, recognising that the Board would be confronted with a difficult task and the need for continuity of policy, had, after deliberation, given the Board a discretionary power to expend its income. So long as it confined the expenditure to the objects specified by the Closer Settlement Act and the Discharged Soldiers Settlement Act, and used that power wisely, he thought the Board ought not to be called upon to furnish in a public manner estimates of its income and expenditure, as proposed by the Auditor-General. He added that the Board would be willing to disclose any information concerning its future operations to your Committee, and would be glad to receive any counsel which the Committee might offer after examining the state of the funds. Moreover, each year the Board made a report to Parliament, setting forth in detail its transactions for the past year, and fully disclosing its financial position as certified by an inspector under the Audit Act. A change in the present system would, he remarked, be neither to the advantage of Parliament nor the settlers. Parliament had not restricted its authority in giving certain defined powers to the Board, to be carried out in accordance with the directions in the Acts mentioned.

COST OF SOLDIERS' SETTLEMENT.

6. During the inquiry it was stated that at the outset of the soldiers' settlement proposals it was estimated that Victoria's quota of soldier settlers would be 5,395 of the 20,000 expected to be placed on land in the Commonwealth. Since then, however, this State had settled about 9,000 (and that number is likely to increase to between 10,000 and 11,000), and has incurred a capital outlay of over £16,000,000 in the purchase of estates and Crown lands on which to settle these soldiers and in advances to them. When the Discharged Soldiers Settlement Bill was submitted to Parliament it was estimated that apart from monetary assistance given by the Commonwealth, £1,000,000 given as concessions in interest on the moneys expended on the settlement of these soldiers and in helping to defray the administrative expenses would have to be made good by the general taxpayer of this State. Towards providing for this shortage Parliament appropriated annually £75,000 out of the Consolidated Revenue to be paid into the Concessions Fund over a period of several years, it being considered that men who had gone abroad to fight for the Empire and had spent three or four years of the best period of their manhood in the defence of their country should be given these concessions in establishing themselves on the land. The Director of Soldiers' Settlement said that this £1,000,000 would be insufficient, in view of the increased number of soldier settlers, and a further sum—approximately another £1,000,000—will have to be provided.

7. The State Auditor-General pointed out that at the end of June, 1921, the total sum absorbed by these concessions was £927,915, and added— "and, of course, the concessions are still going on." He also said— "The financial operations of these Boards are becoming such an important factor in the State's finance that I think they will prove eventually embarrassing to State finance unless steps are taken at an early date to place these funds on a better footing and on a more sound financial basis than they are at present." The matters to which he drew special

attention were the large and increasing loan liability, particularly as regards soldier settlement; the large and increasing liability imposed on taxpayers for interest and administrative charges (the £75,000 paid annually into the Concessions Fund to cover the cost of administration and loss in interest being equivalent to 56 per cent. only of the administrative costs alone, which in 1920-21 totalled about £150,000, or, say, 15s. per cent. on the capital outlay); and that the present arrangement with the settlers for payments, being insufficient to provide for the interest, consequently there is no surplus income to defray the heavy expenditure on administration. The average rate of interest payable on the loans was at that time about £5 15s. per cent., whilst the Board had fixed the rate to be paid by the soldier settlers at £5 per cent. Mr. Norris concluded by stating that if the rate of interest remained at 5 per cent. "it will eventuate in a loss of approximately £900 per settler who had received the maximum amount of land, namely, £2,500, and the maximum advance of £625, or in all £3,125." This £900 was on current account, and did not refer to any loss that may occur in the repayment of capital lent for land purchase or in the repayment of other advances to the soldier settler. This sum was arrived at by calculating that the average rate of interest on loans raised for settlement purposes would be £5 15s. per cent. and adding 10s. per cent. for administrative expenses. The calculation premised that instalments of interest and principal will be paid promptly, and no allowance was made for the loss of interest prior to the date of the lessee's lease.

8. Mr. McIver protested against "concessions" deliberately given by Parliament to soldier settlers in view of their services abroad to the country being spoken of as "losses." He said that the State Auditor-General, in calculating that these concessions would average £900 per settler, had gone the extreme length of assuming that each settler would receive the maximum advance for land, £2,500, and the maximum advance for buildings, live stock, implements, &c., £625, whereas the average maximum of the former was £1,470 only and the latter but £398, or £1,868 in all, as against £3,125 stated by Mr. Norris. Again, the State Auditor-General had based his calculation on the rate of interest on loans remaining at £5 14s. 4d. per cent. for the full period of 38½ years, when there are indications that the money market is easing considerably and rates of interest are on the decline. It was true that the administrative expenses had at the outset been high—last year reaching nearly 17s. per cent. because caretakers and inspectors had to be appointed pending the estates being subdivided and allotted and the settlers instructed in methods of farming, &c. That had been so in the earlier years of closer settlement, but the administrative expenses of that Branch had been reduced from 9s. 7d. per cent. in 1915-16 to 3s. 5d. in 1920-21. It was expected that the administrative expenses in connexion with the soldier settlements would likewise decline in the next few years as all the eligible soldiers became settled and were more accustomed to their new occupation. These expenses would not remain stationary over the full period of 38½ years at 10s. per cent., as assumed by the State Auditor-General. It must be remembered also that the Commonwealth Government was sharing with the State Government in the concessions granted to soldier settlers, inasmuch as it was contributing for five years 2½ per cent. per annum on the total money expended in their settlement. This was a gift, and was equal to a total contribution of £2,483,000. The period free of interest allowed to these settlers would average about two years. If the loans could before long be converted to 4½ per cent. interest the Board could pay the charges of administration and also interest during the free period, and bring soldier settlement out at a profit. At that rate of interest and 10s. per cent. for administration there would be a credit balance of £54 per settler, which would be available for bad debts, &c. At 5 per cent. interest and 5s. per cent. for administration Victoria would have to pay £45 7s. per settler soldier, as against £210 contributed by the Commonwealth plus, in some cases, sustenance. If the rate were 5 per cent. and the administrative cost 10s. per cent. this State would have to bear an outlay of £144 per settler.

9. In a rejoinder the State Auditor-General said that in making his calculations he had to deal with the law as it stands at present and not with estimates based on expectations. Each soldier settler could claim his legal rights, involving maximum sums. Until the soldiers had all been settled and the liabilities in respect of them definitely known it was useless taking average figures.

(CLOSER SETTLEMENT FUND).

10. Dealing with the Closer Settlement Fund, the State Auditor-General reported its liabilities totalled £4,721,353, including sums raised by sale of debentures, &c., and amounts owing in respect of Crown and other lands acquired by the Closer Settlement Board. The assets, including the value of estates purchased and leased to closer settlers and advances made to those settlers, and also sums advanced out of the Closer Settlement Fund to the Discharged Soldiers Settlement

Fund, and cash and Government securities held totalled £4,328,592, leaving a deficiency in the fixed and liquid assets of £392,761. Against this, however, were arrears in payments of principal and interest, &c., shown in the books at £501,901, so that there was a surplus of £109,140 in the assets over liabilities. This estimated surplus is, of course, largely dependent on the realizable value of the arrears. During 1920-21 there was a reduction of nearly £70,000 in the arrears, as compared with the previous year. He objected to the Closer Settlement Fund being used to finance the Discharged Soldiers Settlement Fund, as it will lead to confusion, and probably to the serious disadvantage of the former. Surplus closer settlements funds should, he considered, be applied to the reduction of closer settlement loans.

VIEWS OF THE COMMITTEE.

11. It will be seen that the cost of soldier settlement to this State will very largely depend on the Government being able in the course of a few years to convert the existing loans carrying about 6½ or 7 per cent. interest to 4½ or 5 per cent., and also to a substantial reduction being made in the administrative charges of the Discharged Soldiers Settlements Branch. The Diggers' Loan raised by the Commonwealth Government to obtain funds for soldier settlement bears 6 per cent. interest, but when there is added to that the £1 discount allowed (the debentures having been placed on the market at £96) and the expenses of flotation and office expenses in keeping the stock ledgers and paying interest coupons as they fall due it will no doubt bring the cost of the loan up to 7¼ per cent., the rate the Commonwealth Government is charging the State for the moneys lately advanced to it for soldier settlement. This loan, however, matures in 1930, when it is hoped it will be converted into one bearing a much lower rate of interest than 6 per cent. Your Committee was therefore pleased to learn that the Director of Soldiers' Settlements had written to the Treasurer of Victoria strongly objecting to the action of the Commonwealth Government in suggesting that this State should enter into an agreement to allow the present loans, with their high rates of interest, to run on till 1950. Such an agreement would be one-sided, and would embarrass the finances of the State. It is only by conversion of these loans at the earliest possible date to borrowings carrying a lower rate of interest that this State can avert an undue expenditure in connexion with soldier settlement.

12. While the necessity to submit to the Legislative Assembly annual estimates of income and expenditure is in the direction of sound finance and economy, Parliament has given the Closer Settlement Board power to expend the incomes of the Closer Settlement Fund and the Discharged Soldiers Settlement Fund for the purposes set out in the Acts constituting those funds. Your Committee is of opinion the circumstances fully justified the State Auditor-General in calling attention to this matter, as it has an important bearing on the finances of the State. There is a larger sum of loan moneys invested in closer and soldier settlements than in any other State undertaking except the railways. Whilst not permanently setting aside his suggestion that the Closer Settlement Board should furnish annual estimates of the income and expenditure of these funds as an addendum to the ordinary Estimates for the financial year, your Committee considers that the Honorable the Treasurer, in delivering the Budget Statement, should each year make a full explanation of the financial transactions of the Board, particularly as to the total of the loan funds expended at the close of the last financial year on closer settlement and soldier settlement respectively; the income of each fund, including the total sums received as interest, rents, and from other sources for the past year, and also the expenses, including the total sums paid in interest administration, maintenance of properties, and provision for bad debts, contingencies, &c.; the number of settlers under each Act; the amount in arrears by closer and soldier settlers; the average rate of interest payable on outstanding loans; the percentage of administrative expenses; and the duration of the loans. He should also estimate as far as he is able or deems advisable these several amounts in respect of the two classes of settlers for the current financial year, and should indicate how any anticipated deficiency for the current year is to be met. The fact that the State may be faced with a large outlay over these concessions when the annual contributions from the Commonwealth Government ceases at the end of five years, or through an unfavorable money market making conversion of loans at lower rates of interest difficult, warrants Parliament expecting such information from the Treasurer. If it be given during the Budget Statement the matter can then be considered by the House and discussed, which is not practicable when the report and balance-sheet of the Board is submitted later on towards the close of the Session. Your Committee thinks that there is not much force in the contention of the Director of Soldiers' Settlements that if the amount to be paid in interest during the current year were publicly disclosed by the Closer Settlement Board it would have the effect of increasing the prices to be paid for estates resumed for closer settlement, inasmuch as it would announce that the Board was entering the market as a

purchaser of broad acres. When a Government announces its policy of purchasing large areas for settlement purposes and follows it up by legislation authorizing the raising of loans to acquire such lands the prices are thereupon usually increased, as it is well known the State is an extensive buyer. Most of the required properties have, however, now been purchased, so that announcing the estimate of the amount payable as interest will not materially affect the price of lands sought for closer or soldier settlement in future.

13. The suggestion of the State Auditor-General that surplus closer settlement funds should not be invested in the purchase of discharged soldiers' settlement debentures or stock, but should be applied to the reduction of closer settlement loans, ought to be acted upon when the money market becomes normal again. That is, when funds for soldier settlement can be raised at about the same rate of interest as is payable on current closer settlement bonds. This could not be done in recent years, and, having regard to the difficulty of borrowing at the time, it was a business-like proceeding to invest those surplus sums in the purchase of soldier settlement securities rather than in paying off closer settlement debentures carrying a lower rate of interest.

14. During the inquiry it was ascertained the State Auditor-General had sought an opinion from the Crown Law Department concerning the meaning of a section of the Discharged Soldiers Settlement Act, and after a lapse of six months had not received it. Your Committee considers any legal advice sought by him should be promptly given by that Department.

PARLIAMENTARY SUPERVISION OVER STATE ENTERPRISES.

15. Your Committee feels it ought not to conclude this Report without drawing attention to the growing tendency of the State, either directly or through Boards and Commissions appointed by the Governor in Council, to enter into various undertakings and industrial enterprises, pledging the country's credit to raise capital for these purposes, and rendering the general taxpayer liable to make good any losses incurred. It is recognised that Parliament cannot, with its many legislative duties, exercise the necessary supervision over these undertakings. In view of the largeness of the capital involved and the liability that may be cast at any time on the public, there should be some body representing the Legislative Assembly clothed with the necessary power and given the required facilities to supervise the financial side of these concerns in the hope that any substantial losses may be foreseen and averted if possible.

JOHN LEMMON,
Chairman.

Committee of Public Accounts Room,
State Parliament House,
Melbourne, 15th August, 1922.