Administration of the Defence Home Ownership Assistance Scheme

Department of Defence
Department of Veterans’ Affairs
Canberra ACT
10 June 2015

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Defence and the Department of Veterans’ Affairs titled Administration of the Defence Home Ownership Assistance Scheme. The audit was conducted in accordance with the authority contained in the Auditor-General Act 1997. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office’s website—http://www.anao.gov.au.

Yours sincerely

Ian McPhee

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT
AUDITING FOR AUSTRALIA

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## Abbreviations

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<tbody>
<tr>
<td>AAT</td>
<td>Administrative Appeals Tribunal</td>
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<td>ADF</td>
<td>Australian Defence Force</td>
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<td>ANAO</td>
<td>Australian National Audit Office</td>
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<td>Defence</td>
<td>Department of Defence</td>
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<td>DHA</td>
<td>Defence Housing Australia</td>
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<td>DHOAS</td>
<td>Defence Home Ownership Assistance Scheme</td>
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<td>DVA</td>
<td>Department of Veterans’ Affairs</td>
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<td>FBT</td>
<td>Fringe Benefit Tax</td>
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<td>KPIs</td>
<td>Key Performance Indicators</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>QA</td>
<td>Quality Assurance</td>
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<td>The Act</td>
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## Glossary

<table>
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<tr>
<th>Term</th>
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<td>‘R2’ initiatives</td>
<td>Refers to ADF recruitment and retention initiatives introduced around 2006 and 2007, which included a number of retention bonuses and allowances, remuneration structure reform and other initiatives (including DHOAS).</td>
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<td>Combined service members</td>
<td>Refers to ADF members who have performed multiple forms of military service within a financial year, such as performing periods of both permanent and reserve service.</td>
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<tr>
<td>Commissions</td>
<td>Commissions are paid (to the Commonwealth) by each of the selected home loan providers for the exclusive right to offer DHOAS home loans.</td>
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<tr>
<td>Effective service</td>
<td>For the purposes of DHOAS, effective service refers to recognised periods of completed service by ADF members. For example, reservists typically must serve 20 days within a financial year to accrue a year of effective reserve service.</td>
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<tr>
<td>Permanent members</td>
<td>Refers to a member of the Permanent Forces—the Permanent Navy, the Regular Army, and the Permanent Air Force.</td>
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<td>Rejoining members</td>
<td>For the purposes of DHOAS, a rejoining member is one who has returned to effective service after having been ‘ineffective’ for 12 months or more, or who had been formally discharged.</td>
</tr>
<tr>
<td>Reservists</td>
<td>Refers to a member of the Naval Reserve, the Army Reserve, or the Air Force Reserve.</td>
</tr>
<tr>
<td>Service credit</td>
<td>Refers to the number of months that ADF members can receive a DHOAS subsidy. In general, the amount of service credit is equal to a member’s total effective service minus the relevant qualifying period and minus any periods of time that the member has already received a subsidy.</td>
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Summary and Recommendations
Summary

Introduction

1. Members of the Australian Defence Force (ADF) can access a range of housing and accommodation assistance whilst they serve in the Royal Australian Navy, the Australian Army, and the Royal Australian Air Force. This assistance is provided partly in response to the requirement for ADF members and their families to periodically relocate in order to support Defence capability requirements, and also as an incentive to encourage members to remain in active service. The use of initiatives to encourage the retention of serving military personnel is common around the world; as retaining trained, qualified Defence personnel, particularly in areas requiring specialist skills, is an ongoing challenge for governments worldwide.¹

2. The Defence Home Ownership Assistance Scheme (DHOAS, or ‘the scheme’) was established by the Australian Government in July 2008 to support ADF members in owning their own homes, as an alternative to occupying rented or service–provided accommodation. DHOAS has multiple objectives, relating to supporting the retention and recruitment of ADF members, increasing private home ownership, and also to support members’ reintegration into civilian life.

3. DHOAS provides eligible members of the ADF—whether serving as a member of the Permanent Forces or the Reserves—with a monthly subsidy on their home loan interest payments for up to 25 years. The scheme provides progressively higher levels of assistance to members who remain in active service and has mechanisms in place to avoid members being disadvantaged as they move between service types.² In early 2015, maximum monthly subsidies available to eligible members typically ranged between $238 and $476. DHOAS was allocated funding in the 2007–08 Commonwealth Budget of $864 million over 10 years (to 2016–17). The scheme replaced the Defence


² Members who transfer to the ADF from a foreign service or between the Permanent and Reserve Forces are able to count service rendered.
Home Ownership Scheme³ ‘with a more attractive package of home loan interest payment subsidies designed to encourage retention.’⁴ In the six and a half years between the commencement of DHOAS and the end of 2014, a total of $395 million in subsidies has been paid to just over 30 000 ADF members.⁵

4. Defence offers a range of other housing assistance to ADF members, including the Home Purchase Assistance Scheme, which provides a one-off taxable payment of $16 949 to eligible members to assist them to purchase a home. The Home Purchase or Sale Expenses Allowance is also available to members, and assists with some of the costs involved in selling and buying a home which might arise as the result of being posted to a new location. These two schemes can be accessed by members concurrently with DHOAS, as long as the relevant requirements are met.⁶

5. In the period in which DHOAS was designed and implemented, Defence was seeking to significantly grow the overall size of the ADF. In 2007, there were approximately 53 000 full-time military personnel in the ADF, with Defence seeking to grow this workforce to around 57 000 over the following decade. To support achievement of this growth, in December 2006 the then Government allocated $1 billion for an initial boost to the number of full time personnel. A further $2.1 billion was allocated in the 2007–08 Commonwealth Budget to improve the ability of the ADF to recruit and retain personnel; DHOAS was one part of this funding.⁷ Together, these two tranches of funding introduced a number of ADF recruitment and retention initiatives (known collectively as the ‘R2’ initiatives), which included retention bonuses and allowances, remuneration structure reform and range of other initiatives.

6. The Defence Home Ownership Assistance Scheme Act 2008 (the Act) and the associated Defence Home Ownership Assistance Scheme Regulations 2008 (the Regulations) provide the legislative basis for the scheme, and guide its

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3 The Defence Home Owner Scheme (DHOS) was available to current and former ADF personnel who enlisted on, or after 15 May 1985, until 30 June 2008. Although DHOS was closed for applications in July 2010, in very limited circumstances applicants may still be able to apply for a loan.


5 Since the scheme’s commencement, Defence has also paid more than $85 million in associated fringe benefit tax (FBT) costs—FBT is a tax employers pay on certain benefits they provide to their employees.

6 Refer to Appendix 2 for more information on these two schemes.

administration. Defence is responsible for overall administration of the scheme’s legislative framework, policy and funding. The Department of Veterans’ Affairs (DVA) was appointed by Defence as the ‘Scheme Administrator’—responsible for day-to-day operations of the scheme, including assessing applications submitted by ADF members and paying subsidies into eligible members’ DHOAS-approved home loan accounts. DVA provides these services on a fixed fee and fee for service basis.

7. An important aspect of the scheme is the provision of approved DHOAS home loans—on terms which are expected to be equal or better than other products on the market (particularly in relation to the interest rates applied to the loans).8 Furthermore, to assist in funding the subsidies provided to members, commissions are paid to the Commonwealth by each of the selected home loan providers for the exclusive right to offer DHOAS home loans. The intention of this was to enable the subsidies to be more generous than they otherwise might have been, through using the bargaining power of a considerable bundle of mortgages to a relatively secure type of borrowers. Three home loan providers were selected by Defence to offer DHOAS loans.

**Audit objective and scope**

8. The objective of the audit was to assess the effectiveness of the administration of the Defence Home Ownership Assistance Scheme by the Department of Defence and the Department of Veterans’ Affairs.

9. To conclude against the audit objective, the Australian National Audit Office’s (ANAO’s) high level criteria considered whether: the operational arrangements of the scheme were well managed; the treatment of members was fair and equitable and accorded with relevant legislative, policy and other requirements; and the performance of the scheme was effectively measured, monitored and reported.

10. The audit scope included the administration of the scheme since its commencement in July 2008.

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8 Two of the three home loan providers offer ADF members a 0.7 per cent reduction on the providers’ standard variable interest rate. While this is exclusive for DHOAS clients, other clients may access discounts through other mechanisms.
Overall conclusion

11. Members of the Australian Defence Force (ADF) are often required to relocate as part of their service in the Royal Australian Navy, Australian Army, or Royal Australian Air Force. As a consequence, members and their families often rely on rented or service-provided accommodation and can face difficulties in purchasing their own home. The Defence Home Ownership Assistance Scheme (DHOAS) was established by the Australian Government in 2008 to support members in owning their own homes, and as an incentive to encourage members to remain in active service. The scheme is one form of housing assistance provided to members, and is additional to lump sum payments and allowances which cover some of a member’s costs associated with buying or selling a home.

12. In line with the expectations of the legislation underpinning DHOAS and scheme policy requirements, the Department of Defence (Defence) has established generally satisfactory arrangements to support the effective administration of DHOAS. These arrangements included the appointment and ongoing oversight of a Scheme Administrator (the Department of Veterans’ Affairs (DVA)); and National Australia Bank Limited, Australian Defence Credit Union Limited and Defence Bank Limited as DHOAS-approved home loan providers. In the six and a half years between the commencement of DHOAS and the end of 2014, over 30,000 ADF members have been paid subsidies under the scheme totalling $395 million. Through DHOAS, the Commonwealth has received a total of $53.4 million in commissions (over six years) from the home loan providers.

13. Additionally, while DVA has mainly managed the day-to-day service delivery of the scheme effectively, including assessing applicant eligibility in a timely fashion and appropriately managing subsidy payments, there is scope for both Defence and DVA to streamline the scheme’s delivery and adhere to legislative approval mechanisms, strengthen compliance activities, and improve the measurement of the scheme’s specific impacts. Defence’s oversight of the arrangements encompasses a broad range of activities, including performance standards which aim to encourage DVA and the home loan providers to focus on their key responsibilities. However, other than self-reporting and signed

9 Since the scheme’s commencement, Defence has also paid more than $85 million in associated fringe-benefit tax (FBT) costs.
declarations by members, there were no processes to actively confirm member compliance with key scheme requirements. DHOAS compliance activities could be strengthened by a periodic review of the various defence housing assistance provided to members. Further, Defence’s efforts to measure the scheme’s success have been complicated by the scheme’s multiple objectives—relating to matters of retention and recruitment, private home ownership, and reintegration into civilian life. While there are some positive signs that the scheme is addressing its retention objective, a lack of data has impeded Defence’s ability to measure the scheme’s specific impacts, relative cost-effectiveness and by extension, its value for money.

14. The agreements between Defence and the home loan providers are due to reach their maximum term limits in 2017. While the providers have consistently met the large majority of their performance measures, the expiry of the agreements provides Defence with an opportunity to test the market with respect to the loan terms provided to members and the commissions received by the Commonwealth.

15. The ANAO has made three recommendations; two recommendations directed towards Defence and DVA to streamline the scheme’s delivery and adhere to legislative approval mechanisms, and one recommendation directed towards Defence strengthening its monitoring and evaluation of the scheme’s performance.

Key findings by chapter

Chapter 2: Scheme Delivery Arrangements

16. DVA effectively manages the day-to-day delivery of the scheme, including correctly assessing applicant eligibility and appropriately managing subsidy payments. In December 2014, monthly subsidies paid to over 19,000 members had a combined value of $6.38 million. Almost 70 per cent of members were paid at the highest level available under the scheme, and received an average tax-free monthly payment of just over $300. The ANAO’s analysis of over 2000 subsidy transactions and more than 100 eligibility
decisions identified very few incidences where errors had occurred.\textsuperscript{10} However, decisions (including eligibility assessments and commencing subsidies) have not been made by staff delegated to do so under the DHOAS Act. Defence advised that in light of the significant volume of activity undertaken by DVA (including hundreds of eligibility and payment decisions every month), Senior Executive Service-level delegations were considered impractical.\textsuperscript{11} Amendments to the DHOAS Act to lower delegation levels have been planned for some time, and Defence advised that they may be submitted to Parliament for consideration in 2015, subject to Ministerial and Prime Ministerial agreement. Pending any legislative changes, Defence and DVA should explore opportunities for satisfying the current requirements in a streamlined manner, rather than continuing the current practice.

17. The administration of DHOAS involves the use of a number of manual processes, including data entry and the manual calculation of member’s entitlements. To manage the risks of incorrect decisions associated with its manual processing, DVA reviews at least half of all applications and payments processed and has also implemented a quality assurance program. While this illustrates a strong focus on the quality of decision-making, there is considerable scope for Defence and DVA to achieve efficiencies in the delivery of the scheme. A key area to target for efficiencies include the implementation of an online application system, which could offer better service to members, and significantly reduce manual data entry requirements. Although Defence and DVA have advised they are exploring strategies to identify and implement administrative efficiencies, these strategies are in their formative stages and previous attempts (since 2010) to implement similar strategies have not yet been realised.

Chapter 3: Scheme Oversight Arrangements

18. Defence relies on a broad range of activities to manage the delivery of DHOAS. The performance standards included in the respective agreements encourage DVA and the providers to focus their efforts on key elements of their

\begin{footnotesize}
\begin{enumerate}
\item The ANAO examined the eligibility decisions made by DVA for 105 members. All 105 decisions were made correctly, in accordance with the requirements of the scheme legislation. Where errors were identified, these were minor and mostly related to DVA’s calculation of the length of a member’s entitlement under the scheme. However, errors were generally identified by DVA and corrected before they impacted the member.
\item The \emph{Defence Home Ownership Assistance Scheme Act 2008} currently provides for the delegation of Secretary’s powers and functions provided in the Act to Senior Executive Service employees of Defence and the Scheme Administrator.
\end{enumerate}
\end{footnotesize}
responsibilities and customer service standards, and positive results have been recorded. Surveys are used to assess the satisfaction of members with the scheme. While the response rates to these surveys are quite low\(^\text{12}\), satisfaction levels among survey respondents are high, particularly in relation to DVA processes. Requests from members for internal reviews and discretionary decisions have also been handled effectively by Defence and DVA, and the lessons of successful appeals considered (in total, just nine appeals have been made to the Administrative Appeals Tribunal since the scheme’s commencement).

19. While there is a range of information used by Defence to manage the scheme, there is a strong reliance on self-reported information by members, DVA and the home loan providers, with generally limited verification of information by Defence. In particular, members’ compliance with scheme requirements was primarily promoted through various forms of communication to members, and self-reporting and signed declarations by members. In addition, there were no processes to actively confirm member compliance with key DHOAS requirements, such as the 12 month occupancy period and the appropriate use of subsidies. Compliance in relation to members inappropriately accessing multiple housing schemes was assessed by a quarterly ‘occupancy audit’ process. However, the occupancy audit was limited in that it only reviewed compliance at a point in time when members first receive a DHOAS subsidy, whereas members are able to receive DHOAS assistance for up to 25 years. There is accordingly scope to strengthen DHOAS compliance activities. Defence has advised that it will work with DVA to examine opportunities to improve the current approach to compliance with the occupancy requirements under DHOAS.

20. The agreements with the home loan providers and DVA are due to expire in 2017 and 2018, respectively. While both parties have consistently met the terms of their respective agreements, the expiry of the agreements will provide an opportunity for Defence to test the market with respect to the quality and efficiency of the services provided under DHOAS. It will also be an opportunity to confirm that the Commonwealth is getting the best deal possible with respect to the loan terms provided to members and commissions paid by home loan providers to the Commonwealth. In this regard, Defence advised that it intends to undertake an open tender process during 2016 for the

\(^{12}\text{Response rates to the monthly member satisfaction survey are typically around 20 to 25 per cent.}\)
selection and appointment of home loan providers for the scheme for the period commencing 1 July 2017.

Chapter 4: Monitoring and Evaluating the Performance of the Scheme

21. DHOAS has multiple objectives; however, the scheme’s specific contributions to these objectives have not been clearly established, complicating Defence’s efforts to measure the scheme’s success. Information on the performance of the scheme is provided in Defence’s Annual Reports to Parliament; nonetheless, performance measures could be improved through the use of benchmarks or targets, where relevant. In relation to the take up of the scheme by members, Defence commonly reports that take up is strong, but provides no comparative target.

22. Defence has made a number of attempts to assess the impact of DHOAS. However, despite positive signs, a lack of data and other challenges have impeded Defence’s ability to measure the scheme’s specific impacts and relative cost-effectiveness. Defence’s attempts have also been largely focussed on assessing the scheme’s impacts on retention, to the detriment of other DHOAS objectives. Accordingly, in order to be in a position to provide advice to government on the success of the scheme in achieving its objectives, the ANAO has recommended that Defence act upon the findings of its previous evaluations to develop and implement a program to regularly capture specific data for monitoring and evaluating the scheme’s performance, including in relation to all of the scheme’s objectives.

Summary of entity responses

Response from the Department of Defence

23. Defence welcomes the ANAO audit report on the Administration of the Defence Home Ownership Assistance Scheme. The ANAO's findings and recommendations provide opportunities to build upon ongoing activities working towards streamlining the administration of the Defence Home Ownership Assistance Scheme (DHOAS).

24. Defence will work with the Department of Veterans’ Affairs (DVA) to meet the current legislative requirements. An amendment to the DHOAS Act is currently being sought to enable the Secretary to delegate to DVA employees below SES.
25. Defence is working towards capturing ongoing details of the impact of DHOAS on retention within the Australian Defence Force (ADF). The recent ADF Reserve Employment Offer Survey and ADF Employment Offer Survey (for Permanent Force members) form part of the Optimising the Defence Employment Offer Project. Questions on DHOAS have been included in these two surveys and a measure of the importance of DHOAS as a retention measure is expected to be gained from the results. This will be first opportunity to measure the effectiveness of the DHOAS and further opportunities will be sought in future surveys.

Response from the Department of Veterans’ Affairs

26. DVA notes the Department of Defence’s intention to prioritise the appropriate legislative amendment to address [the matter of satisfying legislation requirements]. DVA is also currently designing an interim solution to satisfy the current legislative requirements, which will be implemented by the end of June 2015.

27. DVA has commenced a project that will deliver streamlined processes through implementation of ICT functionality. While this project is dependent on overall departmental priorities and resourcing, it is intended to deliver improvements over a 12 to 18 month period (from July 2015).
Recommendations

The ANAO has made three recommendations; two recommendations directed towards Defence and DVA to streamline the scheme’s delivery and adhere to legislative approval mechanisms, and one recommendation directed towards Defence strengthening its monitoring and evaluation of the scheme’s performance.

Recommendation No. 1
Para 2.17
To satisfy the requirements of the Defence Home Ownership Assistance Act 2008 in relation to the delegation of decisions, the ANAO recommends that the Department of Defence and Department of Veterans’ Affairs explore opportunities for satisfying legislative requirements in a streamlined manner.

Defence response: Agreed.

DVA response: Agreed.

Recommendation No. 2
Para 2.36
In order to improve the efficiency of the day-to-day delivery of the scheme, the ANAO recommends that Department of Defence and Department of Veterans’ Affairs prioritise the consideration and implementation of options to streamline the administration of DHOAS’ delivery.

Defence response: Agreed.

DVA response: Agreed.

Recommendation No. 3
Para 4.21
To better advise government and the Parliament on the success of the scheme in achieving its objectives, the ANAO recommends that the Department of Defence act upon the findings of its previous evaluations of Defence Home Ownership Assistance Scheme to develop and implement a program to regularly capture specific data for monitoring and evaluating the scheme’s performance.

Defence response: Agreed.
Audit Findings
1. The Defence Home Ownership Assistance Scheme

This chapter introduces the Defence Home Ownership Assistance Scheme, providing information on eligibility and subsidy amounts, the application and payment processes, and the broader ADF workforce context in which the scheme operates.

Background

1.1 Members of the Australian Defence Force (ADF) and their families are periodically required to relocate in order to support Defence capability requirements. To assist members and to encourage them to remain in active service, the Government offers a range of housing and accommodation assistance while serving in the Royal Australian Navy, the Australian Army, and the Royal Australian Air Force in addition to other conditions. The use of initiatives to encourage the retention of serving military personnel is common around the world; as retaining trained, qualified Defence personnel, particularly in areas requiring specialist skills, is an ongoing challenge for governments worldwide.13

1.2 The Defence Home Ownership Assistance Scheme (DHOAS, or ‘the scheme’) was established by the Australian Government in July 2008. The scheme has multiple objectives, relating to supporting the retention and recruitment of ADF members, increasing private home ownership among members, and also to support their reintegration into civilian life. DHOAS provides eligible members of the ADF—whether serving as a member of the Permanent Forces or the Reserves—with a monthly subsidy on their home loan interest payments, as an alternative to occupying rented or service-provided accommodation. The scheme provides progressively higher levels of assistance to members as an incentive to remain in active service and has mechanisms in

place to avoid members being disadvantaged when they move between service types.14

1.3 DHOAS was initially allocated funding in the 2007–08 Commonwealth Budget of $864 million over 10 years (to 2016–17). The scheme replaced the Defence Home Ownership Scheme15 ‘with a more attractive package of home loan interest payment subsidies designed to encourage retention.’16 In the six and a half years between the commencement of DHOAS and the end of 2014, a total of $395 million in subsidies has been paid to just over 30 000 ADF members.

1.4 Defence provides members with access to a range of other forms of home purchase assistance which can be accessed by members concurrently with DHOAS, as long as the relevant requirements are met. For example, the Home Purchase Assistance Scheme provides a one-off taxable payment of $16 949 to eligible ADF members to assist them to purchase a home. The Home Purchase or Sale Expenses Allowance seeks to assist ADF members with some of the costs involved in selling and buying a home which might arise as the result of being posted to a new location.17

**Australian Defence Force workforce and retention context**

1.5 The Department of Defence’s (Defence’s) recruitment and retention policies aim to manage the size of the ADF within its budgeted strength, and to support the training and recruitment of appropriately skilled personnel to replace departing ADF members. Defence has developed and implemented a wide range of strategies and initiatives to support and monitor the achievement of these goals.18 The 2014–15 ANAO report on Recruitment and

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14 Members who transfer to the ADF from a foreign service or between the Permanent and Reserve Forces are able to count service rendered.

15 The Defence Home Owner Scheme (DHOS) was available to current and former ADF personnel who enlisted on, or after 15 May 1985, until 30 June 2008. Although DHOS was closed for applications in July 2010, in very limited circumstances applicants may still be able to apply for a loan.


17 Refer to Appendix 2 for more information on these two schemes.

18 These include periodic Defence White papers, the *People in Defence* vision and blueprint, the *Defence Strategic Workforce Plan*, and Annual People Plans. Supporting initiatives include those which seek to promote workplace diversity, housing and accommodation assistance, and conditions of service.
Retention of Specialist Skills for Navy provides an overview and examination of the Defence (and Navy) workforce strategies.19

1.6 In 2007, there were approximately 53,000 full-time military personnel in the ADF, and Defence was seeking to grow this workforce to around 57,000 by 2017. To support achievement of this growth, in December 2006 the then Australian Government allocated $1 billion for an initial boost to the number of full-time members. A further $2.1 billion was allocated in the 2007–08 Commonwealth Budget to improve the ability of the ADF to recruit and retain personnel; DHOAS was one element of this funding.20 Together, these recruitment and retention initiatives (known collectively as the ‘R2’ initiatives), included the payment to members of retention bonuses and allowances21 and remuneration structure reform.

1.7 The ADF permanent force grew significantly between 2007 and 2011. After reaching an average permanent force strength peak of 59,084 in 2010–11, average permanent force strength trended downwards until January 2014. In 2013–14, Defence had an average strength of 56,364 throughout the year. Similarly, the numbers of reservists grew between 2007 and 2011, to a peak of approximately 22,000 reservists. In 2013–14, 19,741 reservists had undertaken paid service during the year.

1.8 Defence primarily measures and manages the retention of its personnel through the monitoring of separation rates. The annual rolling separation rates of ADF personnel since 2004–05 are shown in Figure 1.1. As separation rates are heavily influenced by a range of variables including retention activities, financial and labour markets and previous enlistment activity, it is difficult for the department to isolate the individual impact of each variable on annual separation rates. However, initial falls in the separation rate were commonly attributed by Defence to the uncertain global economic conditions experienced at that time, and the introduction of the ‘R2’ retention initiatives (which include DHOAS).22

21 The aforementioned audit on Recruitment and Retention of Specialist Skills for Navy includes examination of a number of these bonuses and allowances. ANAO Audit Report No. 17, 2014–15, Recruitment and Retention of Specialist Skills for Navy, see for example, the section on the ‘Payment of retention bonuses’ pp. 112–115.
22 For further discussion on the evaluation of ‘R2’ initiatives and in particular, DHOAS, please refer to Chapter 4: Monitoring and Evaluating the Performance of the Scheme.
Governance arrangements

1.9 The Defence Home Ownership Assistance Scheme Act 2008 (the Act) and the associated Defence Home Ownership Assistance Scheme Regulations 2008 (the Regulations) provide the legislative basis for the scheme, and guide its administration. Defence is responsible for overall administration of the scheme’s legislative framework, policy and funding. The Department of Veterans’ Affairs (DVA) was appointed by Defence as the ‘Scheme Administrator’—responsible for the day-to-day operation of the scheme, including assessing applications submitted by ADF members and paying subsidies into eligible members’ DHOAS-approved home loan accounts. DVA provides these services on a fixed fee and fee for service basis, underpinned by a Memorandum of Understanding (MOU) between the two departments. Since the commencement of the scheme in 2008 through to 30 June 2014, DVA had been paid almost $29 million for the day-to-day operation of the scheme.

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23 DVA was appointed as ‘Scheme Administrator’ following an expression of interest process (using an AusTender notice) in July 2007. Following the receipt of two expressions of interest, DVA was appointed by Defence to deliver the scheme. For further information, refer to paragraph 3.21.

An important aspect of the scheme is the provision of approved DHOAS home loans—on terms which are expected to be equal or better than other products on the market (particularly in relation to the interest rates applied to the loans). Furthermore, to assist in funding the subsidies provided to members, commissions are paid to the Commonwealth by each of the selected home loan providers for the exclusive right to offer DHOAS home loans. The intention of this was to enable the subsidies to be more generous than they otherwise might have been, through using the bargaining power of a considerable bundle of mortgages to a relatively secure type of borrowers. It was originally estimated that commissions payable to the Commonwealth under the scheme would amount to around $170 million over 10 years. Three home loan providers were selected by Defence to offer DHOAS loans. As at 30 June 2014, $53.4 million in commissions have been paid by the loan providers. The key DHOAS relationships are shown in Figure 1.2.

Figure 1.2: Key Scheme relationships

Source: ANAO.

24 Two of the three home loan providers offer ADF members a 0.7 per cent reduction on the providers’ standard variable interest rate. While this is exclusive for DHOAS clients, other clients may access discounts through other mechanisms.

25 Expressions of interest were also sought via AusTender in July 2007 for a panel of home loan providers. Seven expressions of interest were received. The three selected loan providers’ involvement in the scheme is underpinned by Deeds of Agreement, which have a maximum term limit of up to nine years, to 30 June 2017. For further information, refer to paragraph 3.26.
Eligibility and subsidy amounts

1.11 To be eligible to receive a subsidy under the scheme, ADF members must have completed specified periods of service. The qualifying periods for entitlement to the scheme are based on the total number of effective service years, either as a permanent member or as a reservist. For permanent members, the qualifying period is four years while reservists need to have served for 20 days a year for eight consecutive years.

1.12 The level of subsidy provided is based on a three-tiered loan limit structure that provides increasing assistance to members the longer they serve. The service periods, subsidised loan limits and maximum monthly subsidy amounts for each of the three tiers, as at December 2014, are shown in Table 1.1. Actual subsidy amounts may fluctuate depending on market factors: interest rates are adjusted each month in accordance with the median interest rate of all Australian home lenders; and the tiered loan limits, the maximum portion of the home loan that attracts the subsidy, are reviewed annually to reflect changes in Australian house prices.

Table 1.1: Service periods, loan limits and monthly subsidies, by tier (as at December 2014)

<table>
<thead>
<tr>
<th>Subsidy tier</th>
<th>Qualifying period (permanent)</th>
<th>Qualifying period (reserves)</th>
<th>Subsidised loan limit</th>
<th>Maximum monthly subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4 years</td>
<td>8 years</td>
<td>$231 794</td>
<td>Up to $238</td>
</tr>
<tr>
<td>2</td>
<td>8 years</td>
<td>12 years</td>
<td>$347 692</td>
<td>Up to $357</td>
</tr>
<tr>
<td>3</td>
<td>12 years</td>
<td>16 years</td>
<td>$463 589</td>
<td>Up to $476</td>
</tr>
</tbody>
</table>


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26 Ex-serving members applying within two years of separation from the ADF and surviving partners of deceased eligible members may also qualify.

27 Members with a combination of both permanent and reserve service are also entitled to access the scheme and their tier level is dependent on their qualifying period.

28 The median interest rate is capped by legislation at 8.95 per cent. Any changes to the maximum monthly subsidy as a result of changes in the interest rate are posted on the DHOAS website.

29 The loan amount which attracts a subsidy is the lesser of the subsidised loan limit, or the actual home loan amount. This amount is generally set at time of initial payment. Annual changes to the average house price, from which subsidised loan limits are calculated, are provided for in the Defence Home Ownership Assistance Scheme (Average House Price and Median Interest Rate) Determination 2008.
1.13 The number of months that ADF members can receive the subsidy depends on the amount of ‘service credit’ that they have accrued. In general, the amount of service credit is equal to their total years of ADF service minus the qualifying period and minus any subsidies already provided under DHOAS or its predecessor schemes. Completion of ‘warlike service’ extends the amount of service credit—for example, members who complete more than nine months of warlike service accrue an additional five years of DHOAS service credit. The maximum period of time that DHOAS assistance can be received without completion of warlike service is 20 years. Completion of warlike service may extend this maximum time to up to 25 years.

1.14 Subsidies continue to be paid as long as a service credit exists, and where members continue to meet the conditions of the scheme. If members separate from the ADF, they can access any remaining entitlement not used prior to their separation. However, subsidies to separated members are paid at Tier 1 levels, unless the member has served in the ADF for more than 20 years (in which case the member is entitled to subsidies at Tier 3 levels). Separation from the ADF also means that the member can only access subsidies for one further home loan, where they make an application within two years of their separation.

1.15 There is also provision for members who had not previously purchased a home while serving in the ADF to be paid accrued subsidy amounts in a one-off lump sum. Lump sums of up to 48 months of subsidy (where sufficient service credit has been accrued) are paid at Tier 1 subsidy levels. Lump sums are paid only after a loan has been drawn down. Subsidies may also be paid to members who are constructing a new home, or who a renovating their home.

**Application and payment processes**

1.16 ADF members can submit an application for DHOAS assistance to DVA via email, post or fax. The application is assessed by DVA to determine the member’s eligibility for a subsidy certificate. If they are deemed eligible, members take the certificate to one of the three nominated home loan

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30 Warlike service, as defined by the *Veterans’ Entitlements Act 1986*, is ‘service in the Defence Force of a kind determined in writing by the Defence Minister to be warlike service’.

31 While serving ADF members can access a number of subsidy certificates, certificates are issued one at a time and are dependent on the member retaining their eligibility for the scheme at the time of each application. Separated members are only entitled to one certificate which must be obtained within two years of leaving the ADF, and then used within 12 months.
providers for the scheme—the National Australia Bank Limited, the Australian Defence Credit Union Limited and the Defence Bank Limited.

1.17 Once a DHOAS-approved home loan is drawn down, the loan provider advises DVA of the loan balance and account number so that the subsidy entitlement for the member can be calculated and paid by DVA. At this time the applicant must complete a Subsidy Authorisation Request Form, declaring to DVA that they intend to meet the conditions of the scheme. Conditions include the requirement that DHOAS loans can only be used for buying, constructing a home, or renovating or extending an existing dwelling, and the requirement that members occupy the home for 12 months. At start of each month, DVA pays the subsidy amount into the member’s nominated DHOAS home loan account.

1.18 Each month, DVA is responsible for the ongoing management of subsidy payments, including managing a number of events which may change subsidy amounts or cease payment of subsidies. These include any changes to monthly median interest rates; home loan accounts being paid out, or a member’s service credits being expended. In the case of the death of ADF members in receipt of DHOAS subsidies, there are provisions for surviving partners to continue to receive subsidies.

The audit

Audit objective, criteria and scope

1.19 The objective of the audit was to assess the effectiveness of the administration of the Defence Home Ownership Assistance Scheme by the Department of Defence and the Department of Veterans’ Affairs.

1.20 To conclude against the audit objective, the ANAO’s high level criteria considered whether: the operational arrangements of the scheme were well managed; the treatment of members was fair and equitable and accorded with relevant legislative, policy and other requirements; and the performance of the scheme was effectively measured, monitored and reported.

1.21 The audit examined the administration of the scheme since its implementation in 2008. DVA also provides administrative services to Defence for the scheme which preceded DHOAS—the Defence Home Owner Scheme. As that scheme is now largely closed to new applicants, it was not included in the scope of this audit.
Audit methodology

1.22 Fieldwork was conducted in Defence and DVA’s national offices, as well as DVA’s Brisbane office, between September and December 2014, and involved:

- interviews with relevant Defence and DVA staff and each of the three home loan providers;
- examining relevant Defence and DVA documentation, including a sample of DVA’s records for 105 members who had applied for DHOAS subsidies; and
- analysis of DHOAS data and information, including to gain insight into the volumes of DHOAS activities being undertaken by DVA and Defence.

1.23 The audit was undertaken in accordance with the ANAO’s auditing standards, at a cost of $529,674.

Report Structure

1.24 The remainder of the report consists of:

<table>
<thead>
<tr>
<th>Chapter Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Scheme Delivery Arrangements</td>
<td>Examines the processes for assessing the eligibility of ADF members and managing subsidy payments, including commencing the payment of subsidies and adjusting subsidies as required.</td>
</tr>
<tr>
<td>3. Scheme Oversight Arrangements</td>
<td>Examines the effectiveness of the mechanisms used by Defence to manage the delivery of the scheme in accordance with legislative and other requirements. The mechanisms used by Defence to monitor the quality of service to ADF members, and the performance of DVA and the home loan providers, are also examined.</td>
</tr>
<tr>
<td>4. Monitoring and Evaluating the Performance of the Scheme</td>
<td>Examines Defence’s monitoring and evaluation of the performance of the scheme, including assessing whether: DHOAS costs and performance are monitored and reported; and the effectiveness and efficiency of the scheme is measured.</td>
</tr>
</tbody>
</table>
2. Scheme Delivery Arrangements

This chapter examines the processes for assessing the eligibility of ADF members and managing subsidy payments, including commencing the payment of subsidies and adjusting subsidies as required.

Introduction

2.1 As a scheme established to support ADF members in purchasing their own home and which can pay members for up to 25 years, the accurate eligibility assessment of applicants is a priority. A further priority is the need to ensure that the amount paid—both initially and then as member’s circumstances change—is correct and in keeping with DHOAS legislation. It is also important that eligibility assessments and payments are made in a timely fashion, so as to avoid members missing out on purchasing a property, or defaulting on their home loan. This chapter examines the performance of DVA as Scheme Administrator, against these priorities.

Scheme activity

2.2 At the time DHOAS was designed and implemented, Defence was seeking to significantly grow the overall size of the ADF. As noted in paragraph 1.3, DHOAS replaced the former home loan subsidy scheme (the Defence Home Owner Scheme), and is more generous, providing higher levels of subsidies to members that remain in active service. From the commencement of the scheme in July 2008 through to the end of December 2014 a total of 51,650 applications for a DHOAS subsidy were received. Of these, more than 15,000 applications were received in the first year of the scheme (with 11,000 of those received in the first six months), however, this level has since decreased to around 6,000 new applications each year. The total number of applications received is shown in Figure 2.1.
2.3 Not all members who apply for and are found to be eligible for the scheme go on to take up a DHOAS home loan. The reasons for this are varied. Some members may not qualify for a home loan, others may initially test their eligibility for the Scheme, however as eligibility only remains valid for 12 months, may need to re-test their eligibility at a later date. The relationship between overall applications approved and DHOAS loan take up is shown in Figure 2.2.
Defence Home Ownership Assistance Scheme day-to-day operations

2.4 To manage the day-to-day operations of DHOAS, DVA assesses ADF members’ eligibility for the scheme, issues subsidy certificates and pays subsidies to members’ where they take up a loan. In addition, DVA adjusts the subsidies when changes occur, including in response to fluctuations in home loan interest rates or when the level of entitlement for an individual member changes. To perform these functions DVA works closely with Defence to make sure that activity is in keeping with legislation and the scheme’s policy intent. DVA also works closely with the three DHOAS home loan providers to obtain the data required to accurately pay subsidies to members, and to determine the commissions payable by providers. A simplified overview of the day-to-day processes is provided in Figure 2.3.

Figure 2.2: Cumulative numbers of approved applications and the take up of loans by members, July 2008 to December 2014.

2.5 Defence, DVA and the home loan providers jointly contribute to the promotion of DHOAS. Key promotional activities include: maintaining the DHOAS website; providing information to ADF members via phone or email; and loan providers presenting to members on Defence bases.\(^{32}\) The DHOAS website in particular provides a variety of information on the Scheme. Forms (such as the application), fact sheets, a subsidy calculator, and contact methods are provided on the website; as well as links to the approved home loan providers’ websites.

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\(^{32}\) At the launch of the scheme in 2008–09, DHOAS roadshow presentations were conducted at ADF bases throughout Australia, involving 97 presentations to over 9000 ADF personnel. Defence advised that general awareness of the scheme was now quite strong and as such, it considered that a formal program of roadshows was no longer required.
**Assessing applications**

2.6 For a member to be deemed eligible for DHOAS, DVA must confirm that the member has completed sufficient effective service to meet the applicable qualifying period. Together, the Act and associated Regulations prescribe a range of requirements for DVA to consider when determining whether a member has achieved the relevant qualifying period. These requirements include those which:

- define ‘effective service’ for different types of members, particularly for permanent members and reservists;
- prescribe the treatment of ‘combined service members’—for example, members who have performed both permanent and reserve service; and
- prescribe the treatment of ‘rejoining members’—members who have returned to effective service after having been ‘ineffective’ for 12 months or more, or who had been formally discharged.

2.7 DVA must also take into account changes to DHOAS policies or processes when they occur. Some of the changes which have occurred over the life of the scheme have included: legislative amendments; changes in operational policies; and changes to DHOAS processes.

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33 The Regulations contain different requirements for permanent members, reservists, foreign service members, combined service members and incapacitated members.

34 Permanent members accrue effective service on a monthly basis and any leave without pay of 21 days or more is not to be counted towards their effective service. In contrast, reservists must serve 20 days within a financial year to accrue a year of effective reserve service.

35 The intent is generally to double or halve previous service in recognition of the difference in qualifying periods for permanent (four years) and reservists (eight years). There are however, various methods for calculating effective service for combined members, depending on which service the member has transferred to, and for whole and part years of service. For example, if a member had completed four years of reserve service, and then transferred to permanent service, these four reserve years would be equivalent to two permanent years of service.

36 If a member fails to re-join within prescribed time periods, that member may forfeit all previous effective service.

37 A number of amendments were made to the Act in June 2009, including in relation to the eligibility and entitlement of re-joining members, criteria for issuing subsidy certificates, conditions on payment of lump sums, calculation of loan capital for multi-party loans, and delegation of the power to give notice of reviewable decisions. A subsequent legislative amendment was made in July 2010 to ensure that the scheme covered all Reserve members, regardless of the way they became a Reserve member.
2.8 To determine eligibility, DVA assessors draw the member’s service records and enter the relevant information into manual calculation sheets which assist in identifying and applying relevant legislative and policy requirements. Service periods are counted by entering various start and end dates of effective service in an Internet date calculator, and the eligibility decision is entered into the DHOAS IT system. Assessors must also enter new member details into the system and any correspondence with the member (including names, rank, contact methods, addresses and partner links).

2.9 The majority of members who apply for DHOAS have their applications for subsidies approved. Since the commencement of the scheme, 92 per cent of DHOAS applications received have been approved, with only three per cent declined and five per cent withdrawn for administrative reasons or at the request of the member. The trends in DHOAS application decisions since 2008 are shown in Figure 2.4.

**Figure 2.4:** Proportion of Scheme applications approved, declined or withdrawn, since July 2008

![Graph showing the proportion of Scheme applications approved, declined, or withdrawn from 2008 to 2014.](http://www.timeanddate.com/date/duration.html)

Source: ANAO analysis of Department of Veterans’ Affairs data.

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38 This information is verified prior to the commencement of the payment of subsidies—after a member is approved for a subsidy certificate, Defence directly provides and updates the member’s service history data to DVA each month.

39 Timeanddate.com, *Date to date calculator* [Internet], available from [http://www.timeanddate.com/date/duration.html](http://www.timeanddate.com/date/duration.html) [accessed 27 January 2015].
Assessing eligibility for the Scheme

2.10 The accurate assessment of a member’s application is important in ensuring that members are not disadvantaged by being incorrectly assessed as ineligible for DHOAS. Accurate processing of applicants contributes to greater efficiency by reducing costs associated with reviews, rework and the pursuit of debts in cases of overpayment.

2.11 A concern in relation to DVA’s eligibility assessments is the reliance on manual processes and the associated risk of error. Highlighting this risk, between May 2013 and February 2015, errors in manual recording and entering mail or email addresses resulted in 83 potential privacy breaches. The breaches occurred despite DVA having in place a privacy management plan for DHOAS.40 DVA had recorded that at least half of these were unlikely to have resulted in an actual breach of privacy—either an email was not delivered, or mail was returned unopened.

2.12 Interviews with DVA staff and managers involved with processing DHOAS applications, indicated a high-level of awareness of the importance of accuracy of eligibility determinations and subsidy payments, and the avoidance of privacy breaches. DVA has a multistage approach to providing assurance over payment accuracy, in recognition of the increased risk of error associated the complexity of eligibility assessments and the level of manual processing which occurs for each assessment. As a first step the assurance approach includes the documentation of eligibility decisions, all calculations and any client contact, and review of (at least half but in some cases all) assessment decisions made, by a reviewer. The frequency of reviews depends on whether the assessor is deemed to be ‘accredited’ on the basis of a high level of accuracy in their previous decisions.41

2.13 In addition DVA has a quality assurance program in place which focuses on the core administration tasks of the scheme: assessing applications; payment accuracy; processing income emails; and processing change events

40 DVA’s procedure for managing ‘misdirected mail’ include completing a privacy incident report, and if appropriate, the member is offered an apology and the matter is escalated within DVA and to Defence.

41 The outcome of an assessor being accredited is that only half of their decisions are checked by a reviewer, whereas an assessor who is not accredited will have all of their decisions reviewed. Assessors are accredited in a processing task when they achieve 95 per cent accuracy for critical errors and 80 per cent accuracy for non-critical errors, on a sample of 50 completed tasks per month, and when that accuracy is maintained for three months. The accuracy of staff processing is determined as part of a quality assurance program implemented by DVA for DHOAS, which discussed in more detail in paragraph 2.28.
The ANAO’s examination of a sample of 105 applications to determine if DVA had accurately drawn on member service records and correctly determined the member’s eligibility, found that DVA had generally assessed eligibility in accordance with the applicable legislative and policy requirements. However, a number of decisions, including the provision of subsidy certificates, had not been made by decision-makers appropriately delegated to do so.

The Act provides for the delegation of certain powers of the Secretary of Defence (including the provision of subsidy certificates and the payment of subsidies) to Senior Executive Service employees of both Defence and DVA. Defence advised that in light of the very high volume of DHOAS applications (over 15,000 applications were received and processed in the scheme’s first year and about 500 subsidy applications are now regularly received by DVA per month), the delegation levels were impractical. Legislative amendments to lower the delegation levels have been planned for some time (refer to paragraph 3.24 for a list of proposed amendments). However, in early 2015, these amendments were still in development.

To satisfy the requirements of the Act in relation to the delegation of decisions, Defence and DVA should explore opportunities for satisfying the legislative requirements in a streamlined manner. Defence and DVA should also consider any legal and reporting implications of the current arrangements.

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42 This assessment drew on information from members’ applications, service history documentation, data from relevant IT systems and DVA’s notes of member communications.

43 Analysis involved checking that: appropriate documentation was provided to support applicants’ service history claims; service history details were used appropriately to confirm that members had completed sufficient effective service to achieve the relevant qualifying period; that service credit calculations were correct; and personal details were accurately recorded in IT systems.

44 In line with the Act, the then Secretary of Defence signed a delegation instrument in June 2008, and the instrument was subsequently updated in June 2011. For DVA, which makes the majority of DHOAS decisions as part of their delivery of the scheme, the instruments delegate certain decisions under specific aspects of the Act and Regulations to two Senior Executive Service officers.
Recommendation No.1

2.17 To satisfy the requirements of the Defence Home Ownership Assistance Act 2008 in relation to the delegation of decisions, the ANAO recommends that the Department of Defence and Department of Veterans’ explore opportunities for satisfying legislative requirements in a streamlined manner.

Defence response:

2.18 Agreed.

DVA response:

2.19 Agreed. DVA notes the Department of Defence’s intention to prioritise the appropriate legislative amendment to address this matter. DVA is also currently designing an interim solution to satisfy the current legislative requirements, which will be implemented by the end of June 2015.

2.20 The ANAO’s examination of the sample also highlighted a number of issues DVA commonly encountered that complicate the processing of applications. These issues related to the lack of service history documentation for some members, or discrepancies within a member’s set of service history documentation; the impacts of changes in policy and processes over time; and challenges in interpreting or applying some legislative requirements.45

2.21 In the ANAO’s sample, it was relatively common for DVA to encounter challenges in accessing comprehensive and consistent service history records from Defence.46 Until January 2010, eligibility assessments required the consideration of service information provided by the member and signed off by their Commanding Officer. After January 2010, members were still required to provide their service details, but were also required to substantiate these details with formal documentation. While the use of formal records likely improved the overall accuracy of eligibility assessments, there were occasions where discrepancies in different service history documentation arose, and DVA was required to contact the member for further documentation and/or make judgements about what documentation was most reliable.

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45 For example, there was one case in the ANAO’s sample where the Regulations did not contain specific provisions for calculating the effective service of a reservist (who had completed 20 days of reserve service prior to their transfer to permanent service within the year). The reason for this is that for reservists who transfer to permanent service, the Regulations only contain provisions for calculating the combined effective service of reservists who have not completed 20 days effective reserve service before transferring to permanent service.

46 Members were more likely to have difficulties proving effective service for older periods of service.
Timeliness of assessments

2.22 DVA is required to process at least 95 per cent of applications within five days of receipt (not including any days during which DVA waits for members to provide any outstanding documentation). DVA’s success in meeting the timeframe was initially mixed due to higher than anticipated numbers of applications, but since mid-2009 DVA has consistently met the target (as shown in Figure 2.5).

Figure 2.5: Percentage of applications processed on time, January 2009 to December 2014

Source: ANAO analysis.

Note: Figures for 2008 were not included because DVA advised that during 2008 it measured the indicator in a different manner, which it considers to be less accurate. In March 2011, the target processing timeframe was increased from two to five working days (see Table 3.2).

2.23 The majority of the applications reviewed by the ANAO were processed in a timely manner, although slightly below the timeframes reported more broadly by DVA—of the 105 members, 87 (or 83 per cent) had an application that was processed within DVA’s target of five business days.47

47 For assessing the target, ANAO randomly selected one application from each member in the sample. Of the 105 applications, 16 applications did not meet the target and two were withdrawn.
Managing subsidy payments

2.24 In addition to determining member eligibility, DVA also managed the ongoing payment of subsidies—generally members’ subsidies will change over time including due to fluctuations in interest rates. Subsidies may also be affected by changes in individual’s circumstances including when a member experiences changes in service (such as transfers between permanent and reserve service); changes in personal circumstances (such as separation from partner); or when a member’s scheme entitlement is due to change because of a tier progression or exhaustion of service credit. In certain circumstances, members may have options available to them in relation to the calculation of their subsidy payments and when subsidy payments will commence. Options include:

- converting up to 48 months of service credit into a single lump sum payment. To access a lump sum, the member must not have owned a home while serving in the ADF.\(^{48}\) By the end of 2014, over 4000 members have been paid a lump sum;

- electing to use more than one member’s DHOAS entitlements simultaneously. Two DHOAS-eligible borrowers (married or partnered) who share a loan and use their entitlements simultaneously may receive larger subsidy payments. However in some circumstances, there is no financial advantage in doing so; and

- a construction loan, allowing members to progressively increase their loan in line with construction expenses (within a two year period), or elect to commence subsidies after construction is completed.

2.25 The total value of monthly subsidies paid to members under the scheme grew in the first four years of the scheme, and then steadied after the 2011–12 financial year.\(^{49}\) In December 2014 for example, DVA paid subsidies worth a total of $6.38 million to the DHOAS home loan accounts of more than 19 400 members. The regular monthly subsidy amounts paid to members in that

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\(^{48}\) For the purpose of calculating the lump sum, the subsidy tier 1 amount is used. The member can still obtain a lump sum if they owned a home prior to joining the ADF. Members must also have a reasonable amount of service credit remaining to continue receiving subsidies and confirm that they intend to serve for at least another 12 months.

\(^{49}\) Despite growth in the numbers of members receiving subsidies, the total value of subsidies has levelled out, and even slightly fallen in more recent years, due in part to the effect of lower median market interest rates. Refer to Table 4.1 for the value of subsidies paid each financial year since the scheme commenced.
month (ranged from a minimum regular subsidy amount of $20 to a maximum of $470), are shown in Figure 2.6. The average subsidy was just over $300, and almost 70 per cent of members were being paid at the highest tier level (Tier 3).

**Figure 2.6: Regular monthly subsidy amounts paid to members, December 2014**

![Bar chart showing regular monthly subsidy amounts paid to members, December 2014](chart)

Source: ANAO, from Department of Veterans' Affairs data.

2.26 When a member experiences a change event, DVA assesses whether the subsidy parameters used to calculate the member’s subsidy amounts need to be adjusted. In 2014, DVA reviewed over 3000 change events experienced by members. Timely identification of events which may cease a member’s subsidy is important because the DHOAS Act requires DVA to recover overpayments. Examples of events which may cause subsidies to cease are full repayment, closure or refinance of a DHOAS home loan, or the sale of the subsidised property. Members that experience an event that ceases their subsidies are required to apply for a new subsidy certificate in order to have their subsidy payments recommenced. If a member separates from the ADF, the member is only eligible to apply for a final subsidy certificate.

50 A further 39 members were paid a lump sum amount (at an average of $10 225) in December 2014.

51 Like processing applications and initial subsidy payments, ongoing adjustments are verified by a reviewer before approval.
2.27 Within the ANAO’s sample, 76 of the 105 members had received DHOAS subsidies and more than 2000 payments had been made to these members, including 13 lump sum payments, between July 2008 and September 2014. Overall, the ANAO found that in all but a few cases DVA had accurately calculated members’ initial subsidies, and had appropriately adjusted ongoing subsidies, as required. Similar to the processing of applications (see paragraph 2.14), a number of key decisions in the day-to-day administration of DHOAS had not been made by decision-makers appropriately delegated to do so. These include the decisions to commence and adjust subsidies, make lump sum payments, and cease the payment of subsidies.

Quality Assurance

2.28 Quality assurance (QA) systems provide systematic processes for the monitoring of standards and provision of feedback for improvements in the administration of a scheme. The current DHOAS QA program focuses on the core administrative tasks of the scheme: assessing applications; payment accuracy; processing incoming emails; and processing change events. The QA program is based on a monthly random sample of tasks completed by reviewers.

2.29 DVA prepares monthly and quarterly reports which detail the findings from the QA program. The average results of the QA program with respect to the accuracy of application and payment processing between 2009–10 to 2013–14, are shown in Figure 2.7. Accuracy rates have been consistently high over the last two financial years, and are meeting, or close to, their respective targets.

52 The ANAO identified a small number of minor errors in service calculations and an isolated instance where a change event was incorrectly processed resulting in the member being underpaid for two months. DVA advised they had since reimbursed the member.


54 The DHOAS QA program, established in June 2009, has gone through several stages of development. Initially, QA focused on a step-by-step checklist review of the applications and payments work of both assessors and reviewers. However, following a review of the QA program in May 2012, it was decided that the program would apply only to reviewers (so any errors corrected by the reviewer before they affect the member would not be included in the QA results), so as to better focus on the quality of the final decision. Examination of ‘change events’ such as tier progression reviews and changes in members’ service type were also added to the QA process in July 2012.

55 Since February 2014, QA sample sizes are adjusted according to the population size of the work performed. For example, a sample rate of 35 per cent is adopted for smaller populations of between 150 to 300 items of work; a sample rate of 20 per cent is adopted for medium populations of 300 to 400 items of work; and so on.
2.30 DVA advised that it uses the results of the QA process to improve its decision-making. Individual errors identified by the QA process are generally sent back to the relevant reviewer for resolution. More common issues are highlighted with assessors and reviewers in staff guidance and technical training. The ANAO observed instances where certain issues arose as part of QA results, which were then targeted in staff training and guidance, with improvements made in subsequent QA results.

**Annual Reserve audit**

2.31 Reservists typically must complete at least 20 days of effective service within a financial year to accrue one year of service credit (see paragraph 2.6).56 DVA conducts an ‘annual reserve audit’ to identify members who have not

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56 Refer to section 45 of the Defence Home Ownership Assistance Scheme Act 2008. The Act provides that members who do not complete effective service in a financial year may be retrospectively deemed to be a separated member for the purposes of DHOAS. The impact of being separated may be that the reservist is paid subsidies at a higher tier level than they are entitled—separated members who have served less than 20 years are paid only at the Tier 1 level; many reservists are paid at Tier 2 or 3 levels during the year they are deemed as having separated.
met this requirement, and raise any resulting overpayments.\textsuperscript{57} The annual reserve audit (costing approximately $63,000 in 2013–14\textsuperscript{58}) requires the examination of records of thousands of reserve members, many of whom may need to be contacted by DVA for further information. DVA identifies reservists at risk of overpayment and advises those members of the situation. Members can then elect to have their subsidy payments immediately reduced to Tier 1 levels if they believe they will not complete sufficient service by the end of the financial year.

\textbf{2.32} In 2013–14, over 7000 reservists were receiving subsidies under DHOAS. Of these, 1150 members required closer examination as part of the annual reserve audit (as they were recorded in DVA systems as receiving subsidies at a rate other than Tier 1, had served for less than 20 years, and had not yet served 20 days in that year). The annual reserve audit identified a total of 188 members who had been potentially overpaid for one or more months of the financial year. Of these, 32 were subsequently granted an exemption by Defence from completing effective service on the basis of exceptional circumstances.\textsuperscript{59} Overpayments in 2013–14 totalled approximately $190,000. As at December 2014, over $185,000 had been recovered from members.

\textbf{Achieving efficiencies in the delivery of the scheme}

\textbf{2.33} As noted in paragraph 2.11, the manual processing of applications and management of payments requires a high level of review and quality assurance to mitigate the risks of human error. The ANAO’s observed DVA collating information from separate databases and reports, to assess and review each members’ eligibility and payment levels the scheme. For example, each time DVA performs an assessment or review of eligibility or payment amounts; three separate databases may need to be searched to check members’ previous

\begin{itemize}
\item \textsuperscript{57} DVA also conducts the ‘reverse annual reserve audit’ to identify members deemed ineffective in the previous year, but who had been effective in the current year and had not contacted DVA during the year to recommence their subsidy payments.
\item \textsuperscript{58} The annual reserve audit process was not included in the original MOU. As such, Defence provides DVA funding specifically for the audit each year. The cost of the reserve audit for the 2012–13 financial year was $69,645.
\item \textsuperscript{59} Defence’s management of these exemptions, and other similar discretionary decisions, is discussed in more detail in paragraph 3.7.
\end{itemize}
subsidy payment history.\textsuperscript{60} Previous subsidy payments from each database are calculated differently and there are instances where DVA must manually check each subsidy transaction to calculate members’ subsidy payment history. Many members who apply for DHOAS have previously received assistance under the scheme, or its predecessor schemes.\textsuperscript{61}

2.34 As such, there is scope for Defence and DVA to work together to identify and achieve efficiencies in the day-to-day administration of the scheme. Key areas to target for efficiencies include the implementation of an online application system, which could offer better service to members and significantly reduce data entry, and increased automation in the provision of members’ service history information and the generation of letters. Further automation in the calculation of members’ eligibility and service credit may also be possible; however, this may require further legislative amendments to simplify certain DHOAS parameters.

2.35 Defence and DVA advised that they are continuing to explore options to achieve greater administrative efficiencies, including an online application system. Defence and DVA has explored a number of proposed options to improve the administrative efficiency of the scheme since 2010, however most\textsuperscript{62} have not yet been realised, and the current options are in their formative stages. Accordingly, the ANAO recommends Defence and DVA prioritise the consideration and implementation of options to achieve administrative efficiencies in the delivery of DHOAS, and inform any future developments of the scheme. Such consideration would necessarily include the potential upfront costs of any changes against the expected longer-term benefits.

\textsuperscript{60} The Australian Public Service Commission’s 2014 Capability Review on DVA noted ‘typically a client facing employee or assessor may need to open three or four separate applications, none of which ‘talk to the other’, in order to deal with a single client request or claim.’ The review also stated ‘that the ICT platform has not been developed to support contemporary service delivery practice’ and a ‘new, more efficient approach needs to be found as a matter of urgency.’

\textsuperscript{61} In the sample, 39 per cent of members had previously received subsidy payments under DHOAS or its predecessor schemes.

\textsuperscript{62} Since the commencement of the scheme, DVA and Defence have streamlined some aspects of their administration, including in relation to the processing and reviewing activities for operational staff, and the primary IT system used to record and manage DHOAS transactions.
Recommendation No.2

2.36 In order to improve the efficiency of the day-to-day delivery of the scheme, the ANAO recommends that Department of Defence and Department of Veterans’ Affairs prioritise the consideration and implementation of options to streamline the administration of DHOAS’ delivery.

Defence response:

2.37 Agreed.

DVA response:

2.38 Agreed. DVA has commenced a project that will deliver streamlined processes through implementation of ICT functionality. While this project is dependent on overall departmental priorities and resourcing, it is intended to deliver improvements over a 12 to 18 month period (from July 2015).

Conclusion

2.39 In the six and a half years between the commencement of DHOAS and the end of 2014, over 30,000 ADF members have been paid subsidies under the scheme totalling $395 million. As Scheme Administrator, DVA is responsible for the day-to-day operations of DHOAS, including assessing eligibility for the scheme and paying subsidies into home loan accounts. DVA has adjusted subsidies when changes occurred including in response to fluctuations in interest rates or when a member’s entitlement changed. Overall, DVA has generally managed these operations effectively. The ANAO’s analysis of over 2000 monthly subsidy transactions and more than 100 eligibility decisions identified very few incidences where only minor errors had been made by DVA.

2.40 Decisions (including eligibility assessments and commencing subsidies), however, have not been made by staff delegated to do so under the Act. Defence advised that in light of the significant volume of activity undertaken by DVA, Senior Executive Service-level delegations were considered impractical. While amendments to the DHOAS Act to lower delegation levels have been planned for some time, Defence and DVA should explore opportunities for satisfying the legislative requirements in a streamlined manner.

63 Since the scheme’s commencement, Defence has also paid more than $85 million in associated fringe benefit tax (FBT) costs.
2.41 DVA’s processing of applications and payments for DHOAS relies on manual data entry and calculation of member entitlements. While DVA has in place checks to ensure accuracy, reviewing around half of all applications and payments processed and also implementing a quality assurance program, there is significant scope for Defence and DVA to work together to identify and achieve operational efficiencies. An online application system could offer better service to members, and significantly reduce data entry. In addition, increased automation in the provision of members’ service history information and the generation of letters would improve operational efficiency. Further automation in the calculation of members’ eligibility and service credit may also be possible; however, this may require legislative amendments to simplify certain DHOAS parameters. Although Defence and DVA have advised they are exploring strategies to identify and implement administrative efficiencies, these strategies are in their formative stages and previous attempts (since 2010) to implement similar strategies have not yet been realised.
3. Scheme Oversight Arrangements

This chapter examines the effectiveness of the mechanisms used by Defence to manage the delivery of the scheme in accordance with legislative and other requirements. The mechanisms used by Defence to monitor the quality of service to ADF members, and the performance of DVA and the home loan providers, are also examined.

Introduction

3.1 Initiatives that involve the delivery of services by outside parties can increase the complexity of program management. Generally entities will rely on a broad range of activities to oversight program delivery including mechanisms to encourage service providers to focus their efforts on key elements of their responsibilities and customer service standards. For schemes such as DHOAS, effective communication between relevant parties can contribute to the efficiency of scheme’s operations in accordance with legislative and other relevant requirements. This chapter examines the mechanisms used by Defence to monitor the quality of service to ADF members, and the performance of DVA and the home loan providers.

Quality of service to Australian Defence Force members

3.2 Defence has in place as part of the Memorandum of Understanding (MOU) with DVA and the Deeds of Agreement with the loan providers, a number of avenues to obtain feedback on the efficiency and effectiveness of delivery of DHOAS to members. These include: a monthly satisfaction survey; a complaints handling processes; internal review and appeals processes; and monitoring of non-compliance.

The monthly satisfaction survey

3.3 Under the MOU, DVA is required to survey every three months the satisfaction of a sample of members (who have received their initial DHOAS subsidy payment); regarding the level of service members have received from DVA and their home loan provider. While DVA effectively conducts the survey as a census (all members who started receiving subsidies in the preceding quarter), the response rate to the survey is low—typically between
20 and 25 per cent (approximately 170 to 220 members, each quarter).\textsuperscript{64} Acknowledging the low response rate, the survey has consistently recorded (since the commencement of the scheme), high satisfaction levels with the service delivery provided by DVA. For example, in each of the four quarters of 2013–14, more than 80 per cent of members who responded to the survey (and mostly around 95 per cent) were satisfied with DVA’s customer service, the timeliness of response, and its handling of any complaints.

3.4 Similarly, satisfaction levels with the service provided by the loan providers have been generally good since the commencement of the scheme (typically around 80 per cent of respondents, although occasionally falling to around 60 per cent); however, one of the providers has commonly recorded lower levels of client satisfaction. Where concerns were raised about the performance of providers, they typically related to the timeliness\textsuperscript{65} of the processing of loan applications, or dissatisfaction with the customer service provided by during the loan application process. DVA provides a summary of the results of the monthly survey to Defence in a quarterly report which summarises the satisfaction survey results for DVA and the loan providers. Each of the providers also receives an individual quarterly report of their results including any related comments.\textsuperscript{66}

Handling complaints

3.5 Under the MOU, DVA is required to record and handle all complaints received from ADF members in relation to DHOAS. Historically, the number of complaints recorded by DVA has been very low. In the 2012–13 financial year there were 11 recorded complaints, and in 2013–14 there were seven complaints recorded.\textsuperscript{67} However, the number of members who provided feedback on the quality of DVA’s handling of complaints in satisfaction

\textsuperscript{64} Despite the relatively low response rates, DVA advised that the information received provides it with sufficient information on trends and enables the provision of feedback to Defence on home loan provider and DVA client service.

\textsuperscript{65} The home loan providers have a performance standard relating to providing a loan approval or rejection to members within 10 days (see Table 3.3).

\textsuperscript{66} Defence advised that client satisfaction levels are not a key performance indicator in the loan provider Deeds of Agreement. However, the results of the quarterly member satisfaction surveys are taken seriously by Defence and the home loan providers. Defence and the providers use these surveys as feedback on how they can improve the delivery of loan provider services to ADF members. The survey results are also discussed during the year with the providers and at the annual meeting between Defence and loan provider senior representatives.

\textsuperscript{67} In each financial year there was also two further complaints recorded by DVA, however these two complaints related to matters of DHOAS policy, rather than DVA’s administration.
surveys totalled 170 over the period. While the large majority of these respondents indicated that they were satisfied with DVA’s handling of their complaint, the discrepancy suggests that the number of complaints about DHOAS may be under-recorded. DVA advised that it has recorded all complaints from members about its role as Scheme Administrator and Defence has advised that it is satisfied that DVA is correctly recording DHOAS complaints. However, to obtain broader perspective it would be useful to record all member complaints, including those which relate to the home loan providers or DHOAS policies.

3.6 DVA’s management of complaints and other feedback was the focus of a previous ANAO audit (ANAO Audit Report No.32 2011–12 Management of Complaints and Other Feedback by the Department of Veterans’ Affairs. The audit included a recommendation that DVA implement arrangements to assess the under-recording of complaints and other feedback. In light of the size of the potential discrepancy in the number of formal complaints recorded and the number of members who suggest they may have made a DHOAS complaint, it would be prudent for DVA to consider the applicability of the previous audit’s findings and suggestions, in the context of DHOAS.

Internal reviews, appeals and other decisions made by Defence

3.7 The DHOAS Act provides for members to request a review of a decision relating to their eligibility for the scheme or the subsidy amount. If a member remains dissatisfied with the result of an internal review, they may then appeal the decision to the Administrative Appeals Tribunal (AAT). There are also certain decisions for which Defence and DVA are given limited discretion under the Act to waive or override legislative requirements. These include the discretion to waive the requirements for using a subsidy certificate within two years if the member has a medical condition that precluded them from meeting the requirement, to reduce the occupancy requirement under

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68 While most respondents had not taken up the option of providing free text answers to the relevant question, those that did tended to describe complaints related to loan providers or DHOAS policy matters, rather than DVA’s delivery.

69 While the ANAO has not undertaken a follow-up audit of DVA’s implementation of the recommendations and findings of this audit, similar issues were noted as part of a subsequent audit of Compensating F-111 Fuel Tank Workers (Audit Report No. 46, 2012–13, pp. 94–96).

70 There are 13 reviewable decisions listed in section 71 of the Act, for example, a decision to revoke the authorisation for payment of a subsidy or a decision to refuse to give a subsidy certificate.
certain exceptional circumstances and to reduce the requirement for reservists to complete effective service, in exceptional circumstances.

3.8 The numbers of internal reviews, AAT appeals, and requests for discretionary decisions received under the scheme, each financial year since June 2008, are provided in Table 3.1.

### Table 3.1: Numbers of internal reviews, appeals and discretionary decisions, since June 2008

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Requests for Internal reviews</th>
<th>Appeals to the AAT</th>
<th>Requests for discretionary decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008–09</td>
<td>96</td>
<td>0</td>
<td>156</td>
</tr>
<tr>
<td>2009–10</td>
<td>67</td>
<td>1</td>
<td>99</td>
</tr>
<tr>
<td>2010–11</td>
<td>83</td>
<td>3</td>
<td>124</td>
</tr>
<tr>
<td>2011–12</td>
<td>72</td>
<td>2</td>
<td>172</td>
</tr>
<tr>
<td>2012–13</td>
<td>46</td>
<td>2</td>
<td>119</td>
</tr>
<tr>
<td>2013–14</td>
<td>40</td>
<td>1</td>
<td>116</td>
</tr>
<tr>
<td>Total</td>
<td>404</td>
<td>9</td>
<td>786</td>
</tr>
</tbody>
</table>

Source: Department of Veterans’ Affairs.

3.9 The ANAO reviewed a sample of reviews and found that the most common issues that resulted in members seeking internal reviews included requests to reconsider:

- decisions to recalculate/reduce subsidy tier level;
- ineligibility due to a break in service;
- decisions to recover subsidy payments for ineffective reserve service;
- ineligibility due to the receipt of previous housing subsidies;
- calculations of the member’s length of service; and
- the annual requirement for 20 days of reserve service.

3.10 While requests from members for internal reviews are recorded and tracked by DVA, the aggregate results of individual requests have not been collated and analysed. As such, Defence is not in a position to readily monitor the nature of requests for internal reviews or the particular drivers around trends in the review activity (for example, fewer numbers of requests from members for internal reviews have been experienced in more recent years). The reduction in the number of requests for internal reviews may indicate that
DHOAS requirements have settled and become better understood over time. In addition, DVA’s decision-making in respect of DHOAS may have improved over time. With respect to discretionary decisions, there were 16 requests for a discretionary decision to be made from members in the ANAO’s sample. In all cases, DVA had documented the evidence used to assess member requests including correspondence with members, medical reports or formal advice from Defence, and the reasons for approval or rejection of requests.

3.11 Since the inception of the scheme in July 2008, there have been a total of nine completed appeals through the AAT. Specific topics of appeals included:

- ineffective reserve service resulting in status as a separated member;
- failure to use the last subsidy certificate issued following separation from the ADF;
- occupancy requirements following the completion of the construction of a house; and
- the definition of a ‘separated member’ under the Act.

3.12 DVA has generally considered the implications of the issues being appealed. Legal advice has been sought, and DVA and Defence have considered the need for adjustments to policy or processes, where relevant. A number of the legislative amendments recommended by the 2014 DHOAS Review (discussed in paragraph 3.25) correspond to the questions and administrative problems highlighted in appeals to the AAT.

**Monitoring members’ compliance with scheme and broader Defence housing requirements**

3.13 Establishing and monitoring compliance requirements is necessary to support the achievement of scheme objectives and obtain confidence that members are complying with scheme requirements.

3.14 DHOAS loans can only be used for buying, building, renovating or extending a home, or refinancing a loan for one of these purposes. The subsidies provided cannot be used to buy investment properties, cars, boats, holidays or be used for other purposes.\(^\text{71}\) Within DHOAS, compliance with scheme requirements is encouraged through the use of various forms of communication

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to members, self-reporting and signed declarations. The DHOAS website clearly communicates the various DHOAS requirements and the need for members to contact DVA to advise of certain changes in circumstances. The application form, and in particular, the Subsidy Authorisation Request Form (which is necessary for subsidies to be paid), requires the member to confirm that they intend to meet the scheme’s conditions.72

3.15 DHOAS is one of a number of forms of assistance offered by Defence (refer to Appendix 2 for more information on other forms of housing-related assistance, including service residences, rent assistance, and other home purchase assistance). Each form of housing assistance has particular objectives, and associated compliance requirements to support achievement of those objectives. In some situations, these requirements are mutually exclusive—for example, an ADF member generally should not be accessing service accommodation or rent assistance in the same location that they receive support to own their own home through DHOAS.73

3.16 To check that members are complying with the occupancy requirements, Defence with the support of DVA and Defence Housing Australia (DHA)—which manages ADF rent assistance and service accommodation—conduct an ‘occupancy audit’. Each quarter, the occupancy audit involves DVA providing the address details of all new DHOAS recipients to DHA, which then checks to see if the members are in receipt of any form of DHA housing assistance. If so, DHA seeks to determine whether the underlying situation is allowable. For example, it may be appropriate for members to be accessing rent assistance while their DHOAS home is being constructed.74

3.17 The ANAO examined reports from the 13 occupancy audits conducted from July 2011 (when the occupancy audit commenced) to the end of

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72 As part of its sample, the ANAO also noted a number of instances in which as part of assessing applications or processing subsidies, DVA took the opportunity to confirm relevant compliance matters. In the overwhelming majority of instances, DVA provided straightforward and accurate advice to the member, and where relevant, took required actions such as altering or ceasing subsidy payments, or recording relevant information on the member’s file for later use.

73 For example, the Defence Pay and Conditions Manual, section 7.2A.10 Housing assistance, states: 1. A member will not usually get rent allowance or a service residence if they have a subsidised loan on a home at their posting location, and 2. A home bought using a benefit under the scheme is a suitable own home for all further postings to that home’s location.

74 Other allowable circumstances may include: accessing rent assistance in a location to which the member was posted after receiving DHOAS (and having lived in the DHOAS-approved home for 12 months, or obtained an occupancy reduction), or where a member is required to serve at another location and the member’s dependants are unable to move for recognised reasons such as health, or employment or educational commitments.
September 2014. Typically, less than 10 per cent of members were in receipt of both DHOAS and DHA housing assistance, and as such, were reviewed by DHA. Most of these were subsequently found to meet specific conditions which were considered allowable.

3.18 A key constraint of the occupancy audit process is that it reviews members’ compliance only at a point in time; that being within the first three months that a member accessed a new DHOAS loan. While this timeframe is useful (to confirm that members who were in receipt of DHA assistance prior to accessing DHOAS have appropriately relinquished those other forms of assistance), the process does not identify members who take up rent assistance or service accommodation (in the posting location) at any point after the first three months. Further, the process does not confirm that DHOAS occupancy requirements are being met for the full 12 months required. Lastly, the process is not always relevant for the majority of members who have taken up the option of a DHOAS construction loan—the home is unlikely to have been completed within the first three months.

3.19 The work of the Office of the Inspector General of Defence in examining ADF members’ compliance with the requirements of receiving rent assistance or accessing service residences provides a useful example of a more comprehensive process which could be used to strengthen DHOAS compliance processes (see Box 3.1). Defence advised that it will work with DVA to examine opportunities to improve the current checking for compliance with the occupancy requirements under DHOAS.

75 Another option to strengthen DHOAS compliance processes could include cross-checking information provided for the purposes of Defence’s Home Purchase Assistance Scheme (HPAS). HPAS can be accessed by ADF members as well as DHOAS—refer to Appendix 2 for more information. Cross-checking with HPAS information could inform decisions on the payment of DHOAS lump sums.
Scheme Oversight Arrangements

Box 3.1

The Office of the Inspector General’s examination in late 2014 involved the review of all members in receipt of either rent assistance or accessing a service residence at the time, and drew on a broader range of data, particularly in relation to members’ addresses (including DHOAS data, personnel data and publicly available information).

The Office of the Inspector General identified approximately 50 ADF members for further investigation by Defence and DHA. Of these, the overwhelming majority were found to have situations which complied with Defence housing policies (for example, that their own home was deemed unsuitable or that the member had been posted to a location away from their dependants).76

Conclusion—Mechanisms used by Defence to monitor the quality of service to ADF members

3.20 Defence has a number of mechanisms in place to obtain feedback from ADF members, including a satisfaction survey, complaints processes and processes for members to request that decisions be reviewed, or a discretionary decision be made. High satisfaction levels have been observed among members, noting relatively low survey response rates. The number of recorded complaints from members about DVA processes is very low; however there would be benefit in recording all DHOAS complaints, including those which might relate to the home loan providers or DHOAS policies. Compliance with scheme requirements is primarily promoted through self-reporting and signed confirmation by members with no processes to actively confirm member compliance with key scheme obligations. However, Defence has advised that it will work with DVA to improve compliance arrangements.

Defence oversight of the Scheme Administrator

3.21 The MOU agreed between Defence and DVA, sets out DVA’s obligations as the Scheme Administrator, and includes a detailed Statement of Work which sets out the services to be provided by DVA, the key performance standards against which DVA’s performance is monitored, reporting and meeting requirements, and arrangements for determining the funding to be paid by Defence to DVA for delivering the scheme. Since being appointed Scheme Administrator in 2008, DVA has been paid a total of almost $29 million in administration costs (refer to Table 4.1 for a breakdown of these costs).

76 Defence advised that the circumstances of the small number of remaining members had been further investigated by DHA. In April 2015, one instance awaited Defence policy advice, a small number of processing errors were identified, and the remainder required no further action.
Monitoring performance standards

3.22 DVA reports monthly to Defence against four performance standards and associated targets, however Defence does not verify the results and they are not reported publicly. DVA’s overall reported performance has been consistently high since regular consolidated reporting on the performance standards commenced in mid-2010; with DVA meeting all four performance standards in all months, except one (DVA did not meet timeliness performance standard, by just one per cent, in October 2011). The performance reported by DVA generally was reflected in the sample of cases examined by the ANAO. Achievements reported against performance standards in 2013–14 are shown in Table 3.2.

Table 3.2: Department of Veterans’ Affairs performance standards

<table>
<thead>
<tr>
<th>Key performance indicators and description</th>
<th>Target</th>
<th>2013–14 average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Accuracy of subsidy calculations. Number of correctly calculated subsidy payments as a percentage of the total number of subsidy payments.</td>
<td>≥ 99.9 per cent</td>
<td>100 per cent</td>
</tr>
<tr>
<td>2. Timeliness of application processing. Time between an ADF member submitting a correctly completed application for a subsidy certificate and sending subsidy certificate or notification of ineligibility to be less than or equal to five business days.*</td>
<td>≥ 95 per cent</td>
<td>99.7 per cent</td>
</tr>
<tr>
<td>3. Accuracy of processing subsidy payments. Number of subsidy payments to the correct subsidised loan account as a percentage of the total subsidy payments.</td>
<td>≥ 99.9 per cent</td>
<td>100 per cent</td>
</tr>
<tr>
<td>4. Number of complaints received. The number of complaints received relating to DVA’s administration of the scheme as a proportion of the total number of applications received by DVA.*</td>
<td>≤ 2 per cent</td>
<td>0.1 per cent</td>
</tr>
</tbody>
</table>


* Notes: Initially, KPI 2 was set at two business days, but was revised to five days to compensate for the increased workload associated with the introduction of the Subsidy Authorisation Request Form in February 2011. KPI 4 initially related to the percentage of all complaints received for the scheme which related to DVA’s activities (the target then being less than 50 per cent).

3.23 Defence’s oversight of DVA is also informed by regular meetings and reporting, as required under the MOU. Key engagements between Defence and DVA include monthly meetings and reports to discuss the delivery of the

77 As discussed in paragraph 2.22, DVA’s performance in relation to the timeliness of application processing significantly improved in 2009, and has since remained strong. Refer also to paragraph 3.5 for discussion on the recording of complaints by DVA.
scheme, any outstanding issues, the review of the volume of activities, and performance against relevant performance indicators. Executive level meetings are also held twice a year to discuss strategic issues, and the monitoring and implementation of policy, legislation and operational matters.

3.24 As at May 2015 there were a number of action items which affected the delivery of DHOAS and which had remained outstanding, sometimes for several years. These items have been by DVA in regular management meetings with Defence. However, most require legislative amendments to enact or to provide clarity for their application. Among the list of proposed amendments under consideration include those which would:

- clarify effective service requirements, particularly for reservists;
- further improve or streamline administration, for example by simplifying the calculation of effective service for members who move between permanent to reserve forces; removing the need for the approval of multiple subsidy certificates for construction loans; and to lower the delegation of Secretary’s powers to ‘more practical levels’;
- reinforce scheme requirements, such as the 12 month occupancy period; and
- provide the Secretary with discretion to waive certain requirements in situations where an administrative error has a negative impact on a member.

3.25 Most recently, these amendments were considered as part of a 2014 review of DHOAS (discussed paragraph 4.18). The implementation of the significant majority of the proposals was supported by the review. Defence advised that the proposed amendments were agreed by the Chiefs of Service Committee in July 2014 and may be submitted for consideration by government in 2015.

Defence oversight of the three home loan providers

3.26 At the commencement of the scheme in 2008, three home loan providers were selected by Defence to offer DHOAS-approved home loan products to ADF members. The loan providers pay commissions to the Commonwealth for the exclusive right to offer DHOAS-approved home loans. The three providers are: National Australia Bank; Defence Bank; and the Australian Defence Credit Union.
3.27 To direct and monitor the loan providers’ involvement in the scheme, Deeds of Agreement were entered into in April 2008. The Deeds set out the services to be provided, performance benchmarks, meeting and reporting requirements, and customer service standards. The Deeds also provide formulas for determining commissions payable under the scheme. A key responsibility of the loan providers is to ‘offer ADF members, as a minimum, competitive home loans and associated products and services that are generally available from the provider’. Under the Deeds, the loan providers were initially appointed for a period of five years, and this has since been extended twice, up to the Deed’s maximum term of nine years (to the end of June 2017).

Monitoring performance standards

3.28 Performance standards for the home loan providers were included in the Deeds of Agreement and the associated Statement of Work. The first standard relates to the timeliness of their processing of applications for DHOAS home loans made by members, and the second standard relates to the key responsibility of providers to offer competitive home loans. The two performance standards and targets are listed in Table 3.3.

78 Commissions are paid by the providers to Defence each month. Each of the providers has negotiated different commission structures and rates, including one or more of the following: an upfront commission, an ‘exclusivity fee’, and/or an ongoing commission. In October 2009, one of the providers renegotiated its commission structure and rates with Defence. Each month, DVA provides Defence with a report for each of the three loan providers detailing all of their DHOAS loans and the commissions payable. Defence then validates DVA’s calculations (essentially re-performing the calculations) and invoices the providers. The ANAO reviewed the relevant materials for determining commissions for the three loan providers for the month of August in 2014, and confirmed that the respective commission formulas were being applied correctly (the ANAO did not assess the accuracy of the underlying information reported by the providers, including the home loan amounts). Defence has used the same process to verify commissions paid by loan providers since March 2010.
Table 3.3: Home loan provider performance standards

<table>
<thead>
<tr>
<th>Key performance indicators and description</th>
<th>Target</th>
<th>2013–14 average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Timeliness of application processing. Turnaround time between an ADF member submitting a loan application and the loan provider providing an approval or rejection to the member to be less than or equal to 10 days.</td>
<td>≥ 95 per cent</td>
<td>99.0 per cent*</td>
</tr>
<tr>
<td>2. Comparison of standard interest rates to rates provided to Defence members. The percentage of ADF members receiving an equal or lower interest rate than the loan provider’s standard variable or fixed interest rates.</td>
<td>≥ 98 per cent</td>
<td>99.9 per cent*</td>
</tr>
</tbody>
</table>

*Note: These results represent the yearly combined average of all three loan providers.

3.29 The providers report each month to DVA on both performance standards. While the reporting is not verified, it is a requirement in the Deed of Agreement for each provider that they ‘use appropriate measurement and monitoring tools and procedures to measure its performance’. DVA then includes information on all three providers’ performance in a monthly report to Defence. The loan providers indicated that they are consistently achieving the targets for both standards. The results of the monthly satisfaction survey tend to support the reporting for the first performance standard. In the first two quarters of 2014, between 79 and 97 per cent of members were satisfied with the timeliness of response from their loan provider during the loan application process. In relation to the second performance standard, data maintained by Defence showed that the interest rates offered under DHOAS-approved loans since July 2008 have remained equal to, or better than, the respective providers’ standard variable rates. For example, two of the loan providers typically offered ADF members a 0.7 per cent reduction on the providers’ standard variable interest rate.

Home loan provider commissions

3.30 To assist in funding the subsidies to members, the policy underpinning DHOAS provided for commissions to be paid to the Commonwealth (to the Consolidated Revenue Fund) by each of the selected home loan providers in return for the exclusive right to offer DHOAS home loans. The intention of the commissions was to enable the subsidies to be more generous than they otherwise might have been, through using the bargaining power of a considerable bundle of mortgages to a relatively secure type of borrowers.

3.31 As at 30 June 2014, $53.4 million (over six years) in revenue has been received in the form of commissions from the home loan providers. At the
same point in time, outstanding DHOAS loan balances were collectively worth $5.7 billion. As was noted in paragraph 1.10, it was originally estimated that commissions payable to the Commonwealth would amount to approximately $170 million over ten years. In light of the higher than anticipated demand for the scheme from members, and the collective value of DHOAS home loans, there would be benefit in Defence reviewing the structure of commissions paid, and confirming that the Commonwealth is getting the best deal possible with respect to the commissions paid by home loan providers. The expiry of the Deeds of Agreement with the three providers in 2017 is an opportunity for Defence to test the market in this respect. Defence advised that it will undertake an open tender process during 2016 for the selection and appointment of home loan providers for DHOAS, effective from 1 July 2017.

**Home loan providers’ compliance with DHOAS requirements**

3.32 DHOAS home loan providers have to be cognisant of particular DHOAS requirements or processes, and the possible implications for members of changes to their home loan accounts (particularly those discussed in paragraph 2.26 relating to subsidy ceasing events for members using their final certificate). In general, providers advised the ANAO that adhering to DHOAS requirements had not created unreasonable additional workloads. However, the providers noted that in a very small number of cases, administrative errors had been made in relation to DHOAS loan accounts. In some cases, for example, providers had reimbursed members in circumstances where DVA was required under the legislation to recover funds from the member’s account, due to the provider’s error.

**Conclusion**

3.33 Defence relies on a broad range of activities for its oversight of the scheme’s delivery. DVA and the home loan providers are encouraged to focus their efforts on the key elements of their responsibilities and maintaining customer service standards through the monitoring of performance standards specified in their respective agreements with Defence. While the response rates to monthly member satisfaction surveys are low, satisfaction levels among ADF members who receive DHOAS subsidies are high, for example with more than 80 per cent of respondents typically expressing satisfaction with DVA’s customer service and timeliness.

3.34 Compliance with scheme requirements is primarily promoted through various forms of communication to members, and self-reporting and signed
declarations by members. However, there are no processes to actively confirm member compliance with key scheme obligations, such as the requirement for members to occupy a DHOAS-subsidised property for at least 12 months. Compliance in relation to members inappropriately accessing multiple Defence housing schemes (for example, accessing rental assistance and DHOAS at the same time) is assessed by a quarterly ‘occupancy audit’ process. However, the occupancy audit is limited in that it only reviews compliance at a point in time when members first receive DHOAS subsidies—members are able to access DHOAS for up to 25 years. Defence has advised that it will work with DVA to examine opportunities to improve compliance monitoring and reporting with the occupancy requirements under DHOAS.

3.35 The agreements with the home loan providers and DVA are due to expire in 2017 and 2018, respectively. While both parties have consistently met the terms of their respective agreements, the expiry of the agreements will provide an opportunity for Defence to test the market with respect to the quality and efficiency of the services provided and confirm that the Commonwealth is getting the best deal possible with respect to the loan terms provided to members and commissions paid by home loan providers.
4. Monitoring and Evaluating the Performance of the Scheme

This chapter examines Defence’s monitoring and evaluation of the performance of the scheme, including assessing whether: DHOAS costs and performance are monitored and reported; and the effectiveness and efficiency of the scheme is measured.

Introduction

4.1 Measuring the impacts of initiatives, or outcomes, offers important insights that the measurement of inputs and outputs alone cannot. Importantly, the measurement of outcomes provides information about the effectiveness of initiatives in achieving their objectives and supports the longer-term evaluation of programs. Furthermore, performance information can also inform decisions on the efficiency of delivery models adopted to achieve desired policy outcomes.79

4.2 In examining Defence’s efforts to assess DHOAS’ performance, the ANAO has assessed whether:

- expenditure and revenues are effectively monitored;
- performance is effectively monitored and reported; and
- the effectiveness and efficiency of the scheme has been measured (including relative to other initiatives which seek to contribute to the retention of ADF personnel).

Monitoring scheme expenditure

4.3 Funding for DHOAS is provided via a special appropriation80 under the Act. The 2007–08 Budget set aside initial funding approval for DHOAS of $863.8 million for the period 2008–09 to 2016–17 and included the cost of DHOAS subsidies and associated Fringe Benefit Tax (FBT) costs81, scheme

80 A special appropriation is a provision within an Act that provides authority to spend money for particular purposes, for example, to finance a particular project or to make social security payments. Department of Finance, The Commonwealth’s Appropriation Framework, available from: <http://www.finance.gov.au/budget/budget-process/appropriation-bills.html> [accessed November 2014].
81 Fringe Benefits Tax is a tax employers pay on certain benefits they provide to their employees, including their employees’ family or other associates. The benefit may be in addition to, or part of, their salary or wages package.
administration (DVA) costs, and offsets from: DHOS customers moving to DHOAS; and the home loan provider commission revenue.

4.4 As at 30 June 2014, the net cost to government of DHOAS was approximately $420 million, as shown in Table 4.1. This includes: $358 million in subsidies paid to ADF members, $86 million in FBT and $29 million paid to DVA to administer the scheme; and revenue of $53 million in the form of commissions from loan providers. These figures account for the accumulation of new and existing members who continue to access subsidies, and for whom commissions are paid to the Commonwealth by loan providers.

### Table 4.1: Defence Home Ownership Assistance Scheme expenditure and revenue to 2013–14 ($, million)

<table>
<thead>
<tr>
<th>Financial year</th>
<th>DHOAS subsidies paid</th>
<th>FBT costs</th>
<th>Loan provider commissions (revenue)</th>
<th>DVA administration costs</th>
<th>Total DHOAS cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008–09</td>
<td>22.2</td>
<td>4.7</td>
<td>-3.3</td>
<td>5.9</td>
<td>29.5</td>
</tr>
<tr>
<td>2009–10</td>
<td>45.6</td>
<td>12.0</td>
<td>-6.5</td>
<td>4.5</td>
<td>55.6</td>
</tr>
<tr>
<td>2010–11</td>
<td>66.0</td>
<td>15.4</td>
<td>-8.8</td>
<td>4.2</td>
<td>76.8</td>
</tr>
<tr>
<td>2011–12</td>
<td>77.0</td>
<td>16.1</td>
<td>-10.5</td>
<td>4.4</td>
<td>87.0</td>
</tr>
<tr>
<td>2012–13</td>
<td>74.6</td>
<td>18.6</td>
<td>-11.1</td>
<td>4.5</td>
<td>86.6</td>
</tr>
<tr>
<td>2013–14</td>
<td>73.0</td>
<td>19.0</td>
<td>-13.2</td>
<td>5.2</td>
<td>84.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>358.4</strong></td>
<td><strong>85.8</strong></td>
<td><strong>-53.4</strong></td>
<td><strong>28.7</strong></td>
<td><strong>419.5</strong></td>
</tr>
</tbody>
</table>

Source: ANAO, from Defence Annual Reports (2008–09 to 2013–14) and information provided by Defence.

* Note: Defence advised that the DHOAS subsidies paid reported in its 2009–10 Annual Report was incorrect, and provided the above revised figure to the ANAO. Defence had also incorrectly included departmental expenses within administered budget estimates at the commencement of the scheme. The error was corrected in Defence’s 2008–09 Additional Estimates statements. Sub totals may also not add due to rounding.

4.5 DHOAS subsidies, which constitute the majority of DHOAS costs, are party determined by the monthly median Australian home loan interest rate. Following the Global Financial Crisis (which occurred around the commencement of the scheme), home loan interest rates have fallen significantly, and have since remained at historically low levels.82 Despite the stronger than anticipated demand experienced, the low home loan interest

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82 The median interest rate is capped by legislation at 8.95 per cent—the median rate at the time of the scheme's commencement.
rates have significantly reduced the cost of subsidies (and by association, FBT), and as a result, the total cost of DHOAS.

4.6 While Defence tracks the numbers of applications received and subsidies paid, it does not track the commitments made (indirectly or cumulatively) over the life of DHOAS loans. Doing so would enable Defence to advise government of the forward commitments made.

Measuring and reporting scheme performance

4.7 Sound monitoring and reporting of a program’s performance—using, among other things, clearly specified outcomes, well defined program objectives, and appropriate key performance indicators (KPIs)—assists entities to assess the program’s progress towards its intended outcomes and expected benefits. The objectives of DHOAS are multiple and varied, seeking to: support the retention and recruitment of ADF members; increase private home ownership (including in a manner which better reflects changes in the housing market); and also to support members in reintegrating into civilian life. The primary objective of the scheme, as most commonly reported by Defence and DVA, and the main focus of a series of reviews (see paragraph 4.14), has been the retention aspects of the scheme.83

4.8 Although the objectives of the scheme have been defined, the expected specific contributions of the scheme to its various objectives have not been comprehensively established by Defence. In announcing the scheme in 2008, the then Minister for Defence Materiel and Science estimated that the scheme would ‘reduce separations from the ADF by up to 500 members per year in the first three years of the scheme’s operation.’84 However, Defence advised that achievement of this target (or the expected contributions of the scheme to its other objectives) could not be readily assessed; as DHOAS was introduced around the same time as a number of other retention and recruitment initiatives. As a result, it was not possible to separate the individual effects of each initiative from their cumulative effect.

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83 This is also supported by the then Minister’s statement that the scheme was ‘primarily a retention initiative aimed at encouraging serving members to remain in service.’ Source: Snowdon, Warren, MP, Second Reading Speech, Defence Home Ownership Assistance Scheme Bill 2008, House of Representatives, 28 May 2008.

84 The then Parliamentary Secretary for Defence Procurement, the Hon. Mr Greg Combet, MP, Second Reading Speech, Defence Home Ownership Assistance Scheme Bill 2008, House of Representatives, 4 June 2008.
4.9 Public reporting on the scheme occurs through Defence’s Annual Reports to Parliament. The reports provide information on DHOAS, including: the numbers of applications received and certificates approved each year; the total (cumulative) number of ADF members in payment; and the value of subsidy payments made in the year and the cumulative total at that point in time. Defence also provides information relating to the scheme’s retention objective—reporting the proportions of members who indicated that the scheme was an ‘influence’ and a ‘key factor’ on their decision to remain in the ADF.

4.10 While Defence’s reporting on the indicators and deliverables provides information on the performance of the scheme, improvements could be made in relation to reporting performance measures, as shown in Table 4.2. For all of the relevant Annual Reports (from 2009–10 to 2013–14), Defence has reported that all five performance measures had been met each year. However, no specific targets have been established for assessing performance against any of these areas, and the information provided does not provide for an assessment of whether retention rates are being influenced as a result of the scheme’s operation. For example, member take up is commonly reported as ‘strong’, however Defence has not reported against any targets. While take up of DHOAS loans initially exceeded Defence’s forecast for the scheme of about 3 000 per year (over 5000 members received subsidies in just the scheme’s first six months), since that time the growth in the number of members receiving subsidies has fallen steadily, from almost 3400 in 2009–10 to around 1500 in 2013–14.
### Table 4.2: Defence Home Ownership Assistance Scheme performance measures

<table>
<thead>
<tr>
<th>DHOAS key performance indicators</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Members respond to and take up the scheme.</td>
<td></td>
</tr>
<tr>
<td>Ensure that interest rates provided to ADF members by the home loan providers are competitive with other interest rates in the market.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DHOAS deliverables</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide ADF members with assistance to achieve home ownership that reflects the contemporary housing and home finance markets.</td>
<td></td>
</tr>
<tr>
<td>Provide progressively higher levels of assistance for eligible members serving beyond the critical careers points of four, eight and 12 years of service.</td>
<td></td>
</tr>
<tr>
<td>Provision of quality services for the administration of the scheme, including the accurate and timely processing of member applications and issuing of subsidy certificates.</td>
<td></td>
</tr>
</tbody>
</table>


Note: The last deliverable refers to measures of DVA’s role as scheme administrator.

#### 4.11 Defence could also report information on the interest rates provided to members, to demonstrate that competitive rates are being offered to members under DHOAS. Further, the first and second deliverables—relating to providing assistance to members that reflects the contemporary housing market and providing progressively higher levels of assistance—are more statements of key elements of the design of the program, than measures of the scheme’s performance. A more useful approach in relation to the second deliverable might be to report on what proportion of members receives subsidies at the different subsidy tier levels, to allow for tracking over time.

#### Evaluating the impact of the scheme

#### 4.12 Evaluation of a program can show whether, and the extent to which, objectives are being met. Evaluation can also provide evidence of how effectively a program is being delivered and can provide for policy adjustment of alignment. It is generally prudent to finalise evaluation needs from the outset, particularly to ensure that relevant baseline information is recorded before a measure commences, and that the information required for evaluation is collected in an efficient manner.88

4.13 As was discussed in paragraph 4.7, DHOAS has objectives relating to the retention and recruitment of ADF members, improving home ownership levels, and assisting members to re-integrate into the broader community upon their separation from service. The measurement of DHOAS’ achievements in relation to these objectives is complicated by a range of factors, including a number which are out of the direct control of Defence, such as:

- the scheme was one of a number of ‘R2’ initiatives all introduced around the same time, making the identification of the impact of individual measures hard to separate from other measures;
- retention and home ownership are issues with numerous contributing factors, including broader economic conditions (for example, the Global Financial Crisis occurred shortly after the commencement of the scheme); and
- DHOAS is only one form of housing assistance offered by Defence to its members. As noted in Appendix 2, an example is the Home Purchase Assistance Scheme, which offers eligible ADF members a one-off payment of $16,949 (before tax) to assist in purchasing a home. Defence also provides a number of forms of rental housing assistance.

4.14 Defence has sought to evaluate DHOAS’ impacts on a number of occasions. The 2010 Review of the ADF Retention and Recruitment Strategy sought to ‘evaluate the progress of the overall R2 strategy and the success of the individual initiatives.’ Overall, the report noted that the ADF was ‘considerably over its funded strength’, and as such, the R2 initiatives could be assumed to have been an outstanding success, from a ‘strategic quantitative measure perspective’. However, the report also identified that ‘compelling evidence for the impact of the majority of the R2 initiatives was difficult to obtain.’ The report recognised the multi-faceted nature of retention and recruitment decisions, and also discussed the unforeseen impact of the Global Financial Crisis (which may have magnified the impact of the initiatives); but underscored the need for: a ‘robust data capture regime to be implemented pre-implementation’; the use of existing data capture methods, where possible; and the development of further data capture methods, where required. Specific

to DHOAS, the report noted the high interest in the scheme and the positive member response.90

4.15 The 2010 report on the *Review of the ADF Retention and Recruitment (R2) program* focussed on the performance of the various initiatives against their respective performance measures. The report found that overall the R2 strategy had contributed to reduced separation rates and growth in enlistments. However, it was noted that evaluation of the strategy’s impact was confounded by the concurrent and overlapping nature of many of the initiatives.91

4.16 For DHOAS, the report noted that the effect on retention could not be separated from other broad initiatives. However, there were indications of a potential effect in certain key demographics (the report identified significant decreases in the propensity of members to leave at the eighth and twelfth years of service, which warranted further analysis).92

4.17 The 2012 Evaluation of DHOAS found that the scheme had been very popular among ADF members, who were also broadly satisfied with the administration and efficiency of the scheme.93 The report also noted the large number of factors which influenced retention, and suggested that DHOAS had a positive impact on retention and on the intentions of members of the Permanent Forces to stay in the ADF.94 However, the scheme’s impact on the retention of reservists was less clear, and there was no clear assessment of whether the scheme was working to retain the skills most needed by the ADF. As a result, and consistent with a key message of the 2010 reports, it was recommended that Defence establish periodic (empirical) reviews of DHOAS against retention outcomes.

4.18 The 2014 *Final Report of the Defence Home Ownership Assistance Scheme Working Group* noted that compared to when DHOAS commenced, Defence was operating in a more ‘steady state’ environment with respect to capability. The report also noted that overall while separation rates initially fell after the

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90 The report also remarked that the scheme was ‘now considered a condition of service so any attempt to reduce benefit likely to have a substantial negative impact. Take up and amount available should be periodically reviewed to ensure attractiveness to the target population.’
92 ibid., p. 25.
94 ibid., pp. 2–7. The report did note however that DHOAS appeared to be a more important incentive for permanent members to become active reservists, rather than for existing active reservists.
commencement of DHOAS, they had since returned to levels comparable to those that existed pre-scheme implementation. The report was unable to conclude on the scheme’s return on investment within the timeframe available and was ‘hindered by the absence of available data specifically related to the impact of DHOAS on retention and attraction.’ The report also noted that while DHOAS’ simultaneous introduction with a number of R2 initiatives made such an assessment more challenging, the deficit of data had been acknowledged in a series of previous reviews. As a result, the report again proposed that Defence develop and implement a program to regularly capture specific data, and monitor and evaluate the scheme’s performance (including its effectiveness as a retention measure against Defence capability). Despite this, the report again found ‘encouraging signs’ that DHOAS had a positive (but indirect) impact on retention.

4.19 While each of the evaluations has indicated some positive signs with respect to the program’s success, a common finding has been the need for better data to measure the scheme’s specific impacts, and its relative cost effectiveness. The evaluation reports have all suggested that Defence develop and implement a program to regularly capture specific data for monitoring and evaluating the scheme’s performance. This includes better using existing data capture methods, where possible; and the development of further data capture methods, where required. Defence has not yet implemented such a program for DHOAS. However, Defence advised the ANAO that it was seeking to capture details of the impact of DHOAS on retention. Defence also advised that it was examining further opportunities to secure data on the impact and effectiveness of DHOAS both as a retention measure for, and impact on, home ownership of Defence members.

4.20 Defence’s attempts to evaluate DHOAS have also been largely focussed on assessing the scheme’s impacts on retention, with more limited attention to

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95 Department of Defence, Defence Home Ownership Assistance Scheme Review 2014, dated May 2014, pp. 3–4. The report also noted that: ‘It is acknowledged that Defence generally measures retention through the assessment of separation rates, albeit this mechanism is limited in that not all separations are voluntary and the isolated impact of DHOAS on members’ decisions to separate cannot be identified.’

96 Defence advised that regular surveys of ADF members have been conducted by Defence which contain questions on housing, however they do not separate housing into its constituent parts. At the end of 2014 the ADF Reserve Employment Offer Survey was conducted. In March 2015 the ADF Employment Offer Survey (for Permanent Force members) was conducted. Defence has also advised that questions on DHOAS were included in these two surveys and a measure of the importance of DHOAS as a retention measure is expected to be gained from the results.
other objectives such as to ‘encourage home ownership during service as a cost-effective alternative to rental assistance.’ Gaining insight into any commensurate reductions in members accessing other forms of housing assistance as a result of DHOAS would provide a more complete picture of DHOAS’ relative cost effectiveness. Further work could also be done to determine the extent to which the home loan arrangements meet the needs of both ADF members and Defence, and whether there is a need for any adjustment of DHOAS policy settings.

**Recommendation No.3**

4.21 To better advise government and the Parliament on the success of the scheme in achieving its objectives, the ANAO recommends that the Department of Defence act upon the findings of its previous evaluations of Defence Home Ownership Assistance Scheme to develop and implement a program to regularly capture specific data for monitoring and evaluating the scheme’s performance.

**Defence response:**

4.22 *Agreed.*

**Conclusion**

4.23 The objectives of DHOAS are varied, including to support the retention and recruitment of ADF members, increasing private home ownership among members, and also to support their reintegration into civilian life. However, the scheme’s specific contributions to these objectives were not clearly established from the outset, complicating Defence’s efforts to measure the scheme’s success in achieving its objectives.

4.24 Information on the performance of the scheme is provided in Defence’s annual reports, including on the numbers of applications received and approved; the numbers of members in payment, and the value of subsidy payments made. However, performance measures could be improved through the use of benchmarks or targets, where relevant. In relation to the take up of the scheme by members, Defence commonly reports that take up is strong, but provides no comparative target.

4.25 Since the commencement of the scheme, Defence has made four separate attempts to evaluate the impact of DHOAS. However, despite positive signs with respect to the scheme’s success, a lack of data and other challenges
have impeded Defence’s efforts to measure the scheme’s specific impacts and its relative cost-effectiveness. Defence’s attempts have also been largely focussed on assessing the scheme’s impacts on retention, to the detriment of other DHOAS objectives. Accordingly, the ANAO has recommended that Defence develop and implement a program to regularly capture specific data for monitoring and evaluating the scheme’s performance, including in relation to all of the scheme’s objectives.

Ian McPhee  
Canberra ACT  
10 June 2015
Appendices
Appendix 1: Entity Responses

[Address]

Dear Dr Pope

Australian National Audit Office Performance Audit of the Administration of the Defence Home Ownership Assistance Scheme

Thank you for the opportunity to provide comment on the Proposed Report provided to Defence on 8 May 2015.

The Defence proposed amendments, editorials and comments are at Enclosure A. Enclosure B contains the response to the recommendations. The Defence response to the proposed report is included at Enclosure C, for inclusion in the published report.

Should you have any queries, please contact Mr Geoffrey Brown, Chief Audit Executive.

Yours sincerely,

Dennis Richardson
Secretary

M. D. BINSKIN, AC
Air Chief Marshal
Chief of the Defence Force

21 May 2015
ANAO Performance Audit: Administration of the Defence Home Ownership Assistance Scheme

Agency Response

Defence welcomes the ANAO audit report on the Administration of the Defence Home Ownership Assistance Scheme. The ANAO’s findings and recommendations provide opportunities to build upon ongoing activities working towards streamlining the administration of the Defence Home Ownership Assistance Scheme (DOHAS).

Defence will work with the Department of Veterans’ Affairs (DVA) to meet the current legislative requirements. An amendment to the DHOAS Act is currently being sought to enable the Secretary to delegate to DVA employees below SES.

Defence is working towards capturing ongoing details of the impact of DHOAS on retention within the Australian Defence Force (ADF). The recent ADF Reserve Employment Offer Survey and ADF Employment Offer Survey (for Permanent Force members) form part of the Optimising the Defence Employment Offer Project. Questions on DHOAS have been included in these two surveys and a measure of the importance of DHOAS as a retention measure is expected to be gained from the results. This will be first opportunity to measure the effectiveness of the DHOAS and further opportunities will be sought in future surveys.
Entry 1

ANAO Report No.50 2014–15
Administration of the Defence Home Ownership Assistance Scheme

79

Dr Andrew Pope
Group Executive Director
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Pope

Thank you for your letter of 8 May 2015 to the Secretary of the Department of Veterans’ Affairs, Mr Simon Lewis PSM, forwarding the draft report of the Australian National Audit Office audit of the Administration of the Defence Home Ownership Assistance Scheme, and providing DVA with the opportunity to provide comment on recommendations included in this report.

I provide the following responses to the report’s recommendations:

Recommendation 1
To satisfy the requirement of the Defence Home Ownership Assistance Scheme Act in relation to the delegation of decisions, the ANAO recommends that Defence and DVA explore opportunities for satisfying legislative requirements in a streamlined manner.

DVA Response – Agreed. DVA notes the Department of Defence’s intention to prioritise the appropriate legislative amendment to address this matter. DVA is also currently designing an interim solution to satisfy the current legislative requirements, which will be implemented by the end of June 2015.

Recommendation 2
In order to improve the efficiency of the day to day delivery of the scheme, the ANAO recommends that Department of Defence and Department Veterans’ Affairs prioritise the consideration and implementation of options to streamline the administration of DHOAS delivery.

DVA Response – Agreed. DVA has commenced a project that will deliver streamlined processes through implementation of ICT functionality. While this project is dependant on overall departmental priorities and resourcing, it is intended to deliver improvements over a 12 to 18 month period (from July 2015).

Yours sincerely,

[Signature]

Shane Carmody
Acting Secretary
June 2015

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Solving Their Service

ANAO Report No.50 2014–15
Administration of the Defence Home Ownership Assistance Scheme

79
Appendix 2: Other Housing Assistance Provided to ADF Members

1. In addition to the support provided under DHOAS, Defence offers a range of other housing assistance to its members, including other forms of home purchase assistance, and assistance with rental accommodation, service residences and also assistance to relocate.

Home Purchase Assistance Scheme

2. The Home Purchase Assistance Scheme provides a one-off taxable payment of $16,949 to eligible ADF members to assist them to purchase a home. Key requirements include that members may only receive the payment once, the home must be in their posting location, and the member is expected to serve at that location for a further 12 months.

Home Purchase or Sale Expenses Allowance

3. The Home Purchase or Sale Expenses Allowance seeks to assist ADF members with some of the costs involved in selling and buying a home which might arise as the result of being posted to a new location. The member may be reimbursed a range of fees associated with the sale or purchase of a home, including agent’s fees, conveyancing fees, mortgage fees, and some government fees. There are limits placed on some of these amounts, but in many cases the full normal fees or costs can be reimbursed (for example a member can be reimbursed for the full amounts generally charged in their state or territory for agent’s fees, conveyancing fees and government duties).

Housing assistance provided by Defence Housing Australia–rent assistance, service residences and living-in accommodation

4. Defence Housing Australia (DHA) also provides a number of forms of housing assistance for members, including rent assistance, service residences and living-in accommodation.

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97 ADF Pay and Conditions Manual, Chapter 6 – Part 2 Division 1, July 2014.
98 To be eligible the member must: have received assistance from Defence to help buy their home to live in at their first posting location; sell that home after a posting to another location; and wish to buy another home to live in at the new posting location. ADF Pay and Conditions Manual, Chapter 6 – Part 2 Division 2, July 2014.
5. Rent Allowance subsidises the cost of renting a property in the private rental market for eligible ADF members. The amount of assistance provided depends on: the member’s rank; the property rent; the number of sharing occupants; the member’s categorisation; and the posting locality. A member can choose to rent at any amount, but the amount of rent assistance is capped at certain points. If live-in accommodation is available which the member elects not to use, the member may receive a lower rate of assistance.

6. Service residences are the primary form of housing DHA offers to eligible ADF members with families/dependents. Eligible members are allocated a residence based on the number of family members and posting area. The cost of the service residence to the member depends on their rank; and the property rent. If a member is posted in a new area, the member can access other housing assistance at no additional cost while their family remains at the original service residence.

7. Living-in accommodation refers to living on base, such as in a barracks or a mess. Members may be required to live on base if they meet any of the following criteria: are on a training course; less than 18 years old; hold an operation role at base; or on a short visit to a location near a base. The cost of living on base depends on the members rank and the quality of the accommodation, for example members that share a room pay less. Eligible members can elect to live on base if accommodation is available.
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