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1st, 2nd QUARTERS 04/05
Submission No:2.....

Centrelink Submission to the JSCPAA on 4 April 2005 – 1:30pm

Centrelink acknowledges the effort made by ANAO to understand the challenges facing our organisation and the work already undertaken over the past one to two years to improve debt management processes and practices. Centrelink is continuing to look for areas for improvement in this area of its operations. To this end Centrelink has embarked upon a process to reform all aspects of compliance or, as it is termed internally, payment integrity.

An approach to payment integrity is being developed which is based on three core principles. Firstly, payment integrity is fundamental to programme design and implementation not a separate operational activity. Secondly, an integrated model should add value through effectively coordinating an organisation's people, processes and technological capabilities so that integrity-driven performance is embedded into the operating core. Thirdly, the organisation's culture must be appropriate to the new focus..

The payment integrity strategy will look at payment integrity as an end-to-end process with clear lines of accountability. It will build on the progress made in the debt management area over the last two years. It will target payment accuracy at all points of interaction with customers rather than rely on reactive remedial processes. It will be an integrated strategy that considers policy complexity and design, engages customers and business groups in establishing effective voluntary compliance while providing staff with appropriate training and time to identify and manage risk.

ANAO made nine recommendations and Centrelink has taken steps to implement each of the recommendations. Two of the recommendations have been implemented and the remainder are under way. Comments on progress with each of the recommendations follow.

Recommendation 1:

'The ANAO *recommends* that, in developing a replacement for Centrelink's current Debt Servicing Strategy, the agency:

- continue to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and
- align debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.

Progress to date:

Work on this recommendation is underway in the context of the development of the overarching payment integrity strategy. This strategy will better align and co-ordinate the functions and strategic priorities of the relevant Centrelink teams.

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The Debt Servicing Strategy will focus on the specific operational elements of debt management within the broader objective of payment integrity.

The strategy will be completed by 30 June 2005.

Recommendation 2:

'The ANAO *recommends* that FaCS, in consultation with Centrelink, review the external performance monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:

- Replacing the current debt key performance indicators in the FaCS–Centrelink Business Partnership Agreement with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery); and
- Revising the Outcome–Output measures in both FaCS and Centrelink Portfolio Budget Statements to encompass these measures, which would then be reported against in the agencies' respective Annual Reports to the Parliament.'

Progress to date:

New Debt Raising and Recovery Output Measures have been developed and agreed by FaCS and Centrelink under Alliance 2004 Outcomes Outputs Framework (OOF) and implemented from July 2004. The relevant output measures are:

Debt Raising: That debts determined be 65% of the undetermined debt base

Debt Recovery: The value of debts under recovery be 65% of the debt base

The debt raising output measure overcomes the deficiencies of the previous measure and promotes a consistent approach across the network to dealing with debts in a timely fashion. The debt recovery output measure better addresses the changing nature of the customer base and the changes over time to customer preference for repayment options.

Both output measures provide a better focus for network activity and remain relevant irrespective of the level of compliance activity or savings measures initiated by Client Agencies.

In September 2004 FaCS and Centrelink agreed to sign an MOU covering all of Centrelink's debt management activity. The MOU includes a mechanism for developing and reviewing output measures. This MOU was not progressed in light of the changes to the Administrative Arrangements Orders which followed the election in 2004.

As a result of the Administrative Arrangements Orders the administration of the Social Security Act is now shared by the Department of Family and Community Services, Department of Employment and Workplace Relations and the Department of Education

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Science and Training. Centrelink has established an interdepartmental forum as a vehicle for ongoing dialogue on debt management issues. A major focus of this dialogue is the development of an output measure for debt prevention.

Recommendation 3:

'The ANAO *recommends* that Centrelink monitor customer satisfaction with the administration of its debt raising and recovery activities, and use the results to improve debt service delivery.'

Progress to date:

The Customer Satisfaction Project commenced in October 2004.

This project considers a number of facets including the conduct of a longitudinal customer survey and the conduct of Value Creation Workshops with customers.

The research will be completed by May 2005.

Recommendation 4:

'The ANAO *recommends* that Centrelink review the implementation, including funding arrangements, of debt prevention activities across its network, and determine whether this implementation supports effective leadership and coordination of debt prevention and management initiatives by Centrelink's Debt Services Team.'

Progress to date:

The completion of work on this recommendation is dependent upon, and should reflect, the outcomes of discussions with client departments on the debt prevention output measure.

In the interim work is continuing on the payment integrity strategy. This will broaden the understanding in the network of payment integrity and its relevance to prevention of debt in the short term and long term. The essential thrust of this work is that payment correctness and therefore debt prevention is core business for the network at large not just the staff specifically designated with a debt prevention function

Recommendation 5:

'The ANAO *recommends* to help support debt prevention initiatives, Centrelink develop a set of internal performance indicators that accurately measure, and/or assess, the effectiveness of its debt prevention activities.'

Progress to date:

As with Recommendation 4, this activity cannot be completed until an external output measure for debt prevention has been agreed with client departments.

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Recommendation 6:

'The ANAO *recommends* that Centrelink undertake a review of the accuracy of the value of debts determined and raised by its Compliance Teams. If the results of this analysis identify low rates of accuracy, immediate remedial action is advisable.'

Progress to date:

The review is underway and is due for completion by the end of April 2005.

Recommendation 7:

'The ANAO *recommends* that Centrelink analyse the appropriateness of applying debt waivers throughout its network, especially at the Original Decision-Maker level in Specialist Debt Raising Teams. If the results of this analysis identify low rates of appropriateness or consistency, immediate remedial action is advisable.'

Progress to date:

This project is underway and will be completed by 30 June 2005.

Recommendation 8:

'The ANAO *recommends* that to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink:

- Proceed with the planned implementation of a nationally-based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and
- Upgrade the recovery infrastructure; including the telephonic and online systems, to ensure customers can readily access Recovery Officers.

Progress to date:

This recommendation has been implemented.

New centralised debt recovery arrangements were implemented on 1 October 2004. On 1 October 2004 Centrelink established 6 specialist debt recovery sites. Five of these sites operate as a virtual team and the sixth specialises in indigenous specific payments.

A dedicated telephone number for customers to contact Debt Recovery was implemented on 1 October 2004.

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An upgrade of the telephone system, Computer Technology Integration (CTI), is due to be completed by 30 June 2005.

Recommendation 9:

'The ANAO *recommends* that Centrelink to continue with the development of:

- A national training program for Recovery Officers to provide consistency of approach as well as adequacy of skills, and which would support a high level of performance, throughout the Centrelink network; and
- Debt recovery scripts for use by Recovery Officers, to improve consistency of advice and decision-making.

Progress to date:

This recommendation has been implemented.

Prior to the implementation of the new debt recovery arrangements, all debt recovery staff received training to improve customer relations and to ensure that the overpayments are recovered in a timely and efficient manner without placing the customer in undue financial hardship.

Welfare Rights were contacted to assist in the development of the training. At the training courses representatives of Welfare Rights delivered a session on the customer perspective and experiences in dealing with Centrelink on debt related issues.

This training package continues to be used for new staff recruited after 1 October 2004. Accreditation for the course as a Certificate IV in debt recovery is currently being sought.

Two debt recovery scripts have been developed.

- A talk script has been developed to assist recovery staff to be professional in their approach and to negotiate a suitable repayment without causing customers financial hardship, and
- An account recovery script has been developed to assist recovery staff in handling repayment arrangements, withholdings, garnishees, write offs, waivers, recording missing payments, sending letters and contacting customers and third parties.

Submission to the Inquiry by the Joint Committee of Public Accounts and Audit into Audit Report No. 15 2004-2005 Financial Management of Special Appropriations

Introduction

The Department of Finance and Administration (Finance) welcomes the opportunity to contribute to the Joint Committee of Public Accounts and Audit's inquiry into Audit Report No.15 2004-2005 *Financial Management of Special Appropriations*.

Finance notes the issues raised by the Australian National Audit Office (ANAO) in preparing the report and considers that it will serve to focus agencies' attention on appropriation management.

Under the financial framework, Chief Executives are responsible for the proper management of appropriations. Finance provides guidance to assist agencies to understand their responsibilities.

In the audit report, the ANAO noted that due to the audit and Finance's guidance "entities have increased their focus" on legislative requirements and reflected this in their management practices. The ANAO also acknowledged the numerous pieces of guidance issued by Finance prior to the audit and noted that the guidance would "provide a strong platform for agencies to enhance their management and disclosure of appropriations".

Based on discussion held with agencies, Finance also considers that agencies are improving their focus on appropriation management.

Finance's work on special appropriations

In the year prior to the audit, Finance issued several pieces of guidance to agencies to assist them with the management of their appropriations. This guidance included:

- the Finance Minister's (financial statement) Orders (FMOs) that are issued each year to agencies and which require disclosure of the use of appropriations, including special appropriations in an agency's financial statements;
 - In the 2004-05 FMOs, Finance expanded the guidance on special appropriations to provide greater clarity on the disclosure required.
- Estimates Memorandum 2003/27, which provided an overview as to how the appropriations framework operates;
- Finance Circular 2004/06, which explained that an appropriation is required to support the expenditure of any money held by the Commonwealth;
- Finance Circular 2004/07, which explains the need for officials to be authorised by a drawing right in order to spend moneys held by the Commonwealth. This includes how agencies can spend moneys from special appropriations that are the responsibility of another agency;
- Finance Circular 2004/08 on repayments made by agencies under the special appropriation provided by section 28 of the FMA Act;
- Finance Circular 2004/16, which reminds agencies of their responsibilities under the FMA Act for appropriation management, including what accounts and records need to be kept for appropriations and cash drawn down to agencies' bank accounts; and

- Finance Circular 2004/17 on appropriations for payment to CAC bodies, including those that are appropriated via special appropriation. It also reminds entities of the reporting requirements for CAC bodies receiving these moneys.

Copies of these finance circulars and the Estimate Memorandum are attached for information.

Addressing the audit recommendations

The ANAO audit made three recommendations that related to the financial framework and Finance.

- Recommendation 3 requests that Finance review the guidance and financial reporting requirements of special appropriations, specifically, 3(a) - special appropriations not drawn on in a given year, 3(b) - special appropriations that are the administrative responsibility of another agency and 3(c) - the approach to achieve a clear read between budgeted and actual use of special appropriations.
 - Finance has addressed the issues identified in Recommendation 3(a) and 3(b) through the additional guidance provided in the 2004-05 FMOs. In regards to Recommendation 3(c) Finance is currently reviewing agencies' current practices with a view to improving the clear read between agencies' Portfolio Budget Statements and Annual Reports.
- Recommendation 4 requests Finance to promulgate advice on the management and disclosure of special appropriations to *Commonwealth Authorities and Companies Act 1997* (CAC) bodies, including the roles and responsibilities of Finance, portfolio Departments and CAC bodies.
 - Finance has addressed this issue through the issue of Finance Circular 2004/17 – *Appropriations for payment to CAC bodies* on 29 October 2004.
- Recommendation 5(a) requests that Finance examine options to promote greater consistency in the management of special appropriations by Commonwealth entities.
 - Finance has addressed this issue through Estimate Memorandum 2003/27 and Finance Circular 2004/16, which should enhance agencies' understanding of appropriations and result in better appropriation management.
- The audit report also identified, but made no recommendation, that some agencies were not estimating their daily funding requirements. Finance is developing a finance circular that reminds agencies to estimate their next-day cash drawdown requirements in order to minimise the occurrence of intra-day overdrafts. This finance circular is expected to be issued in April 2005.

Consolidated Revenue Fund (CRF) and Surplus Revenue

The audit report discussed the composition of the CRF and how it is calculated. The balance of the CRF can be calculated in one of two ways. Firstly, by adding the cash balances controlled and administered by all agencies reporting under the FMA Act, including special public moneys, which are reported separately by agencies. The second approach is to derive the balance of the CRF by subtracting from total general government sector cash the balances of cash controlled and administered by bodies

under the *Commonwealth Authorities and Companies Act 1997*, and then adding special public moneys.

Both calculations give the same result but the second approach has been reported in Budget Paper No.1, as well as in the Consolidated Financial Statements, as it provides a reconciliation between total general government sector cash, as reported in the budgeted and actual financial statements, and the balance of the CRF.

The audit report also discussed Finance's calculation of Surplus Revenue under section 94 of the Constitution. On 10 June 2004, the ANAO and Finance, as part of the audit, discussed this issue. Finance advised the ANAO that surplus revenue calculations had been done - in the context of the ANAO's annual financial statements audit - for all financial years from 1999-2000 to 2002-03.

However, in light of the evolving legal advice as to what components comprise surplus revenue following the abolition of fund accounting in 1999, Finance undertook to review all of its surplus revenue calculations over this period and provide revised calculations to the ANAO as part of its special appropriations audit. These calculations were subsequently reviewed, signed off by senior officers in the Department and provided to the ANAO, in a consistent format, on 26 October 2004.

Conclusion

Finance considers that agencies are more aware of their responsibilities and are responding to both the enhanced guidance available and the recommendations of the audit report.

The additional guidance already made available by Finance and the work still underway should further assist agencies to implement internal controls that will allow proper management of special appropriations.

Department of Finance and Administration
23 March 2005