



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Auditor-General's reports Nos. 27 (2007-08) to 2 (2008-09)

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**JOINT STATUTORY
COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

Wednesday, 12 November 2008

Members: Ms Grierson (*Chair*), Mr Georgiou (*Deputy Chair*), Senators Mark Bishop, Boyce, Bushby, Feeney and Lundy and Mr Bevis, Mrs Bronwyn Bishop, Mr Bradbury, Mr Briggs, Mr Butler, Ms King, Mr Morrison, Mr Neumann and Mr Robert

Members in attendance: Senators Bushby, Feeney and Lundy, Mrs Bronwyn Bishop, Mr Briggs, Mr Georgiou, Ms Grierson and Mr Neumann

Terms of reference for the inquiry:

To inquire into and report on:

Auditor-General's reports Nos 27 (2007-08) to 2 (2008-09)

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Committee met at 11.49 am

CAHILL, Mr Matt, Group Executive Director, Performance Audit Services Group, Australian National Audit Office

CHAPMAN, Mr Steve, Deputy Auditor General, Australian National Audit Office

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GOLIGHTLY, Ms Malisa, Deputy Secretary, Employment, Department of Education, Employment and Workplace Relations

MILLIKEN, Ms Marsha, Group Manager, Department of Education, Employment and Workplace Relations

CASSIDY, Mr Wayne, Acting Branch Manager, Department of Families, Housing, Community Services and Indigenous Affairs

GEMMELL, Mr Bill, Section Manager, Compliance and Debt, Department of Families, Housing, Community Services and Indigenous Affairs

CHAIR (Ms Grierson)—Welcome. I ask participants to remember that only members of the committee can put questions to witnesses if these hearings are to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion I would ask them to direct comments to the committee. It will not be possible for participants to directly respond to each other. Secondly, given the short time available today, statements and comments by witnesses should be relevant and succinct. I remind witnesses that these hearings are legal proceedings of the parliament and warrant the same respect as proceedings in the House and the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Does either of our agencies wish to make an opening statement?

Mr Tidswell—We are happy to make an opening statement. We welcome the follow-up report on the management of customer debt and are pleased that the ANAO has noted our progress since their 2004 audit. This is a big topic and a big issue for Centrelink. We are always keen to work on how we can improve our work in this area. We have been putting in place a whole raft of processes and procedures to improve consistency across our 316 offices and 25 call centres—in particular, trying to get a more consistent approach to our debt raising and debt management. Most recently, we have established a business integrity network consisting of about 3,000 staff

specifically to focus on improving consistency and getting our work in better shape right across the country.

We are also putting a lot more effort into the front end so that, when we talk to customers about their obligations and commitments, we make it clear what they have to do. We are increasingly looking at the raft of things that we can do to get data more regularly from third parties, whether academic institutions, employers or other places. We are keen to continue work on the follow-up audit and the two recommendations and to work with our policy departments to work through the issues. We are happy to be here today to answer questions.

CHAIR—Thank you. We have quite a few questions. I do not think anyone here was on the original inquiry. I think Ms Catherine King was but she has had to leave. We are very pleased to see that progress has been made, but we are alarmed in our general discussion at the continuing size of the debt and the widening of the debt base. That is concerning for us. I know our members have questions.

Mr GEORGIU—I have a general one. What is the actual debt? This covers a number of programs. Mrs Bishop raised some questions about other debts. What is the total quantum of debt that Centrelink is trying to recover?

Ms Rule—As of 30 September this year, the total debt that we had on hand was \$2.2 billion.

Mr GEORGIU—That is almost twice as much as was disclosed by this audit. And that covers all payments?

Ms Rule—It is important to note that the audit did not cover family assistance debts.

Mr GEORGIU—And this is everything?

Ms Rule—Yes, that is right; that is everything.

Mr GEORGIU—I appreciate that you have made progress. One of the central findings, however, of the Audit Office is that there are notable inconsistencies across the network, particularly in its allocation of resources, its debt prevention, its application of debt waivers and its approach to recovering debts. I have raised with the Audit Office the fact that I think that addressing these should have been a recommendation. When will these issues actually be addressed?

Ms Rule—Mr Tidswell referred to the establishment of what we call the business integrity network. At the time of the audit our debt work was done in 15 geographical areas and under 15 different management structures. Since that time, we have consolidated those, so we now have 3,000 staff across Australia all working through the same hierarchy and the same line of command, if you like. We have nationalised that function rather than it being dispersed across the country. That has allowed us to move to a much more consistent framework, to deliver consistent training and to make sure resources are allocated in the same way, so there are not 15 different ways of doing this work.

Mr GEORGIU—How far have you got in guaranteeing consistency across the network?

Ms Rule—Consistency is a challenge for Centrelink regardless—getting 27,000 people to all do things in the same way is an ongoing challenge for us. One of the things that we have done to try and improve debt management, as well as the structural things that I have just talked about, is to focus on training, and this picks up some of the issues that were raised in the audit. We have developed a national training package that is being delivered to the staff who are doing this work and we have pulled the functions, as I said, into, rather than 15 teams, depending on which function you are talking about, probably five or six teams. It is much easier to drive consistency through a less dispersed network.

Mr Tidswell—If I may make an additional comment. This is a big change for us as an organisation. The evidence before us on debt management is one of the drivers to do that—to get greater consistency and efficiency and to improve our outcomes across the board.

Mr GEORGIU—The ANAO has noted that DEEWR undertook some analysis of debt waiver in 2006 and found that it was cost effective to collect sums below \$50. Did you share it with the ANAO so they could evaluate it, and could you share that with us?

Ms Golightly—We did some indicative work. We noted at the time and in the audit report that it was not possible to do a comprehensive study, but we worked with Centrelink on it at the time to get indicative figures, really to look at whether there was any basis for increasing the debt waiver. Indeed, while not definitive, there was enough evidence there to show that we might be able to lower the limit. That was why we suggested that more work be done before jumping to increase the limit. The other thing that it showed was that the cost effectiveness could be brought down quite a lot by automating a number of functions. Of course, that in turn would require a significant investment in IT systems et cetera. So it was not definitive; it was indicative, but it showed, on the information that was available, \$38 or so was a point and that we might be able bring that down to 20-something dollars. On that work we are continuing to talk with Centrelink and FaHCSIA so it is a major part of going forward.

Mr GEORGIU—There was a recommendation from this committee. You have not gone along with it. You have come along with partial data that actually indicates that you could be saving even more money—God bless you—but nothing has progressed. Could I urge you and the ANAO to sort this out. Have a look at their data, see what is necessary and come back with a recommendation about what the level should be in cost-effective terms. I am not sure that we really need to be told that if we invested it might be more cost-effective but then it would not be cost-effective.

Ms Golightly—No; I am just suggesting it is not as easy as lowering or raising the limit. There are other things that have to happen.

CHAIR—Have you done any empirical study of how much extra it would cost to pursue very small amounts if you lowered it?

Ms Golightly—No—

CHAIR—From memory, one of the reasons for us suggesting that we raise it was that it is not cost effective below certain points to pursue it.

Ms Golightly—Yes, and what we looked at was, for our payments, whether that was true because we had not done any work on that. When we looked, it actually, surprisingly, went the other way. That is why we want to work further with Centrelink and FaHCSIA—to make sure that we do do a comprehensive empirical analysis of what is cost effective and what would be involved in making those changes.

CHAIR—Before proceeding, I would like to acknowledge that in our gallery today we have two representatives of the Indonesian audit office who are seconded at the moment to ANAO on a training program. Mr Neumann and Mrs Bishop and I just returned from Indonesia where we had some excellent meetings with the government there. We welcome you here today.

Mrs BRONWYN BISHOP—Could I begin by observing that this follow-up report shows a debt being carried of \$1.3 billion. Then you have told us that the total debt being carried is \$2.2 billion. Presumably the difference, \$900 million, covers debts outstanding with regard to family tax benefit parts A and B and lump sum payments associated with those. Would that be true?

Ms Rule—That would be, I think, a significant proportion of the difference. I do not have the exact figures of the difference in front of me but it would be the vast majority of that difference.

Mrs BRONWYN BISHOP—It might be helpful if you could then let us have the exact figures and tell us what sort of debt the remainder might be. One of the questions I was asking of the Audit Office—and that is how we discovered that the family tax benefits had not been included—was: what had happened with regard to lump sum payments were overpayment of the lump sum that we introduced and has now been continued. What percentage of the overall debt does that represent for each category? Presumably, it is in your age pension category.

Ms Rule—Which lump sum? Do you mean lump sum payments in general or specific ones?

Mrs BRONWYN BISHOP—I mean the ex gratia lump sum payments that we introduced for pensioners and for others.

Ms Rule—It depends. There are a range of lump sum payments as you have noted and it depends on how those—

Mrs BRONWYN BISHOP—When it was first introduced I think it was \$1,000. I think that is the basic payment.

Ms Rule—It depends how those payments are constructed in terms of what legislation we collect them under—whether it is the Social Security Act or the Financial Management and Accountability Act.

Mrs BRONWYN BISHOP—I do not mind how you collect it. I just want to know whether or not a large number of people got it when they should not have.

Ms Rule—I would have to take that one on notice. I do not have a breakdown by those payment types.

Mrs BRONWYN BISHOP—It is particularly relevant because as we are going into spending half of the surplus—\$10.4 billion—I would have thought it would have fallen into somebody's purview to take a look at what the projected likelihood of overpayments would be so that we know what we are dealing with.

Ms Rule—We will have that data. I just do not have it with me today in terms of a breakdown by the lump sum payments, so I will have to take that on notice.

Mrs BRONWYN BISHOP—I will accept that you will take it on notice, but I would have thought that anyone coming to this committee today would have had that information with them.

Ms Rule—I have got some information with me about different payment types in terms of customer groups, but I just do not have information on whether it was a regular payment, as in an age pension, or a lump sum payment for those customers.

Mrs BRONWYN BISHOP—Bearing in mind the climate we are in and the difficulties we have, that figure should have been with you today. What is the value of debt that is waived in a single calendar year, or, if you were using the September deadline, how much is it in a year for whatever date you calculate it? So, up to 30 September, how much debt did you wipe off for the year preceding that date?

Ms Rule—In the 2007-08 financial year, \$574 million worth of debts were waived, written off or reduced for other reasons.

Mrs BRONWYN BISHOP—So that is another half a billion. So the debt ratio being carried in a single year, whether it is written off or carried forward or whatever, is now up to \$2.7 billion. That is one hell of a lot of money. We heard from the Audit Office that you have not done anything about prevention. One of the questions I asked—and I would like to see if you have got an answer for me—was: what is the average time that elapses between an overpayment being made and the debt being identified and notified to the debtor?

Ms Rule—We do not keep an average time for that transaction. I do not have that data.

Mrs BRONWYN BISHOP—That is fundamental, because the longer the time is the greater the debt that accumulates and the less likely you are to get the money back. So I would have had that up as item No. 1.

Ms Rule—Our systems do not allow us to count that data.

Mrs BRONWYN BISHOP—Then I suggest you need a new system, because that is what I would call a preventative measure, which the Audit Office said you need.

Ms Rule—I agree that we need some preventative measures, and we are working very closely at the moment with policy departments and the Department of Human Services about introducing a new regime that has a better balance between what I would call prevention and detection. At the moment, we spend the majority of our resources on detection activities aimed at finding debts once they have already occurred. The policy direction that has been agreed is that

we will move to a balance between prevention and detection, to try and prevent those debts from occurring in the first place.

CHAIR—Just to clarify: The Audit Office did not say Centrelink had not done anything but rather that certainly there was a need for a set of indicators in terms of debt prevention. That is just to make sure that we do understand that the Audit Office was not quite so absolute.

Mrs BRONWYN BISHOP—‘Indicators’ and all that sort of soft language are not my favourite form of language. I got the message that there had not been much done on prevention.

Mr Tidswell—We are putting a lot of effort into trying to get all the detail right at the time of claim and then, as people stay on payment for periods of time, if a customer comes in on Newstart or youth allowance every fortnight to talk to us we check all the issues they may need to deal with in the next fortnight so we can answer those then—have they got any new employment; what is the rate of that new employment; and how can we factor that in? There is a major campaign to get try and get it right upfront to prevent the overpayment and therefore prevent the debt. That is where we think the greatest opportunity is here—to put more effort at the front when we are assessing, finalising, explaining to customers what they need to do to comply and, on top of that, trying to get the data from third parties that confirms assets, income and study details et cetera.

Mrs BRONWYN BISHOP—How old is the majority of this debt?

Mr Tidswell—The debt that the—

Mrs BRONWYN BISHOP—We have got a figure. Let us deal with the \$1.3 billion that is identified in this report to start with. How old is the debt? What percentage of it is six years old, 10 years old, one year old, five years old?

Ms Rule—This is one of the issues that we have been working on with policy departments since the audit, where there was a recommendation to do some analysis of the debt base. That is underway.

CHAIR—I draw people’s attention to page 44 of the report.

Mrs BRONWYN BISHOP—Thank you for that. There is a break-up there that shows the debt: under one year, 34 per cent; one to two years, 21 per cent; two to three years, 13 per cent; three to four years, 10 per cent; and over four years, 22 per cent. So nearly a quarter of the debt is over four years old. How old is it—four to how many years?

Ms Rule—I do not have the data with me on that specific breakdown. What I can tell you is that it is important to note that the majority of our debt is under recovery arrangements with current customers. What that means is that we are recovering from their current welfare payments. So we are recovering at a very small rate, because it is important that we do not put these customers into additional financial hardship.

Mrs BRONWYN BISHOP—Because of the number of people who come through my office with debts—and are devastated by it—you will not get any disagreement with me on that. They

think that you, as the government agency, will always make the right payments. When you say that you have made an error and they have to pay for it, they become very upset.

Ms Rule—Sure. But the impact of that on the age of the debt is that it can take a long time to recover debts. So it means that the debt base is ageing as we seek to recover those debts at a relatively small rate.

Mrs BRONWYN BISHOP—What percentage of that debt do you think will eventually have to be written off?

Ms Rule—It is hard to say. At the moment we have 70 per cent of the total value of our debt base with an active recovery arrangement in place.

CHAIR—Do your recovery arrangements extend to the payments that will come out of the 8 December payment, or are they quarantined from this?

Ms Rule—No. My understanding is that we will not be recovering debts from those payments.

CHAIR—Good. We do want to see it stimulate the economy. I just wanted to clarify that.

Mrs BRONWYN BISHOP—If you will not be doing that with these payments, have you done it in the past with other payments?

Ms Rule—Different arrangements have been in place for different payments.

Mrs BRONWYN BISHOP—No, that will not do. Have you before—

Ms Rule—In some instances yes; in some instances we have not. That is a policy question, so in that regard we do what it is that the policy departments ask us to do in delivering those payments.

Mrs BRONWYN BISHOP—Okay, then one of those departments can answer that.

Mr Cassidy—The answer there is correct. We would have to check the different bonus payments that have been made and the arrangements around each one. Off the top of my head, I cannot tell you which ones were recoverable.

Mrs BRONWYN BISHOP—Could you do that please, and can we have it with great speed and alacrity. If I go to page 107 of the report it says:

Customers in receipt of payments which required little direct contact with Centrelink, such as the Age Pension, were more likely to accumulate large debts (very large debts comprise 46.5 per cent of Age Pension debts).

A very large portion is \$20,000 and above. You also categorise a large debt as somewhere between \$1,000 and 20,000. Now that seems to me to be a pretty useless figure in that \$1,000 would be considered, I would have thought, very much less serious than \$20,000. If it is possible to get a better breakdown on that, it would be quite useful to know how many people are

involved in that figure. With that statement and your knowledge of that, can you tell me whether or not it is largely part pensioners? I guess it has to be part pensioners who are accruing that debt because it is their information that has been put in and that has shown their entitlement to be larger than it actually is when it is reviewed. Can you tell me what the process of review is and how you find that out, and I do not mind whether it is FaHCSIA or Centrelink that tells me that?

Mr Cassidy—A large proportion of the debt base is from the age pension. The average size of the debts is actually much smaller—around \$360. As with all payments, a common problem is around the reporting of income and earnings. That is certainly the case with the age pension, with the increasing numbers of part-rate pensioners and the requirement for earnings. That is certainly an issue and we are looking at that and working with Centrelink on addressing that with measures that try to capture the debts—that is, either prevent them from occurring at all or early intervention to assist in identifying them earlier and preventing the over payments from building up.

Mrs BRONWYN BISHOP—Given that 46.5 per cent is a very large debt—over \$20,000—I do not think very much early intervention has been going on.

Ms Rule—A couple of measures have been introduced over the last couple of years that have helped a lot in that regard. With age pensioners, it is often related to assets, particularly real estate. We have been doing a lot of work with FaHCSIA to introduce an ongoing regime of real estate valuations to make sure that we are accurately reflecting the value of assets. One of the drivers for such large debts is that customers have failed to tell us of a change in their assets, arising either through a change in value or through having disposed of a real estate asset, or some such thing. So we have a regime in place now where we work directly with the Australian Valuations Office. We are exchanging data with them electronically, which is helping with that. The other measure that is helping is building on a pilot that has been running for two years and is now coming into mainstream businesses about data exchange with financial institutions. We have started with the Commonwealth Bank in the pilot and we will be extending that to other financial institutions during this financial year.

Mrs BRONWYN BISHOP—That is an interesting point, particularly regarding the real estate, which is going the other way now, so you will probably have more people coming on board.

Ms Rule—Potentially, yes; that is right.

Mrs BRONWYN BISHOP—I will ask you in a minute whether you have done any projections about how much the numbers of claimants for Newstart and other applicable pensions may rise in accordance with the prediction of 134,000 people in the budget losing their jobs and with the further prediction of job losses. I will come back to that in a minute. I will just put you on notice. With the value of property, what do you use as a valuation? I hope it is not, in New South Wales, the Valuer-General. He is in great disrepute.

Ms Rule—We use the Australian Valuations Office, which is a Commonwealth authority that actually belongs to the Australian Taxation Office, I believe. They are a Commonwealth authority that does valuations of behalf of the Commonwealth.

Mrs BRONWYN BISHOP—Do you send them out to value every pensioner's home?

Ms Rule—It depends. There are a number of ways that we can do the valuation. Sometimes they will do a desk based valuation applying average values and those sorts of things; they will do drive-by valuations; or they will do a full evaluation, where they make an appointment to come and visit the home and inspect it.

Mrs BRONWYN BISHOP—How many of those would you do?

Ms Rule—I do not have those numbers with me. I can take that question on notice.

Mrs BRONWYN BISHOP—Okay.

Mr NEUMANN—I think the Australian public would be appalled. If the 1.9 million small businesses we have around this country had 22 percent of their debts outstanding over four years, they would be analysing in great detail. Their accountants would be on to them, saying: 'What's going on?' Yet paragraph 2.7 states:

Centrelink was unable to provide the ANAO with reason(s) for the ageing of its debt base.

Can you explain that?

Ms Rule—We have accepted the recommendations that the ANAO has given around analysing the debt base, and we are working actively with policy departments on addressing that shortfall.

Mr NEUMANN—That is the future. Can you explain what has happened in the past?

Mr Tidswell—I think one of the issues we have eluded is the modest approach we have to the recovery of those overpayments. We are not going into people's homes and taking the money of their pockets. We do have relaxed recovery regimes, by and large, because a lot of people do not have a lot of wherewithal to deal with the size of those overpayments. In that sense, we do have a regime that is not punitive to individuals, hence the stock of that outstanding debt base.

CHAIR—I would feel relaxed about that if you were successfully concentrating major effort on debt prevention. That is our major concern with this report—that there still is not evidence of major concentration or clear or successful strategies in debt prevention.

Mr Tidswell—Obviously, it is a large amount of money. We would prefer it to be much smaller. We do not want to have debts, and I am fully aware of the concerns and issues that customers across the country relay back to us about our administration in this area. But what we are trying to do at the outset of claims, when people talk to us, is to say, 'You need to keep your details current with us.' We know that that is where the largest part of this debt base occurs. It is through people not telling us about changes in their circumstances for us to then adjust their payments—up and down.

Mr GEORGIU—Can you tell us what proportion of your total payments these payments of \$1.1 billion are?

Mr Tidswell—A proportion of?

Mr GEORGIU—Of your total outlays on these benefits.

Mr Tidswell—They are about \$66 billion.

Mr GEORGIU—And you have, on an accumulating basis, \$1.3 billion. I think that is an important perspective on how—

Mrs BRONWYN BISHOP—It is \$2.2 billion.

Mr GEORGIU—No, that is not on all the payments. That is just on these. So I think that gives us some sort of perspective on how outraged small business in Australia should be.

Mr NEUMANN—The Audit Office found that you had undertaken limited work to develop a full appreciation of the underlying drivers of the customer debt base. You say that your compassion is the reason it is expanding. Is that the answer?

Mr Tidswell—It is one of the factors. You were saying that if we were in business and we had debtors to that tune, we would not last very long.

Mr NEUMANN—No, you would not.

Mr Tidswell—We have a non-punitive approach to recovery of those payments in the large. Obviously, where people are fraudulent, we deal with that very severely. But in the other instance, where your entire income is from Centrelink payments, there has been a regime in place for many years to recover that in a modest and relaxed way.

Mr NEUMANN—That is not the response that was given by your office to the auditors. It was in fact that there was a problem with the legislation in terms of the capacity to write off.

Ms Rule—If I could make a comment on that, it is important to note that we are legislatively obliged to pursue these debts for six years unless it meets certain conditions, in which case we can write off or temporarily waive those debts. You used the analogy of a small business. They are unlikely to continue to pursue the sorts of debts that we are legislatively obliged to keep pursuing for six years. Every time we initiate some action around one of those debts the clock restarts. So we have to do nothing on a debt for six years, from a legislative point of view, before we can write that off as a bad debt. So that is an important parameter within which we have to work.

CHAIR—Mr Neumann?

Mr NEUMANN—No, I would say something I would regret.

CHAIR—DEEWR, you made the following comment in response to the report:

DEEWR's fundamental expectation is that Centrelink's front-line customer service reflects this emphasis—

on debt prevention—

through processes that support payment accuracy and prevent overpayment.

What is your involvement in terms of your understanding of Centrelink's front-line customer service reflecting debt prevention?

Ms Golightly—We have been working with Centrelink for a couple of years now. There are a number of things that have been put in place, and I can detail some of those. As witnesses have mentioned this morning, I think there is general acknowledgement that things need to move further in the area of weighting towards prevention. There is a renewed commitment across the three agencies to make that happen.

CHAIR—I would like you back to our previous inquiry, where we looked at the customer service surveys et cetera. I note that the last customer survey was undertaken in 2005. We made lots of recommendations at the time about the importance of customer feedback to constantly tweak the system and respond. What progress has been made on having a process that constantly gives feedback and informs practice?

Mr Tidswell—We run customer surveys across our call centres and our customer service centres all year round. Every week I get a snapshot of feedback from customers and our customer relationships units, and feedback—

CHAIR—So why did Audit find, on pages 58 and 59, that the last customer service survey was undertaken in 2005?

Mr Tidswell—What we are talking about is a specific survey in relation to debt. But every day of the week we have data about what is going on with our customers, complaints, compliments—

CHAIR—But we would really like to know about the information you have from customers about debt, about incurring debt or preventing debt.

Ms Rule—Specifically in response to the audit recommendations, we ran several of what we call value creation workshops, where we get groups of customers together and ask them about their experience in relation to particular areas of our business. We ran a series of value creation workshops in relation to debt and used that information to inform the processes, communications with customers—

CHAIR—Did any process or practice change as a result?

Ms Rule—Yes: changing some of our communications material to help customers understand what was happening more clearly; making it easier to talk to expert staff around debt issues, with a dedicated number they could call to talk about debt; making some changes to our letters and forms—those sorts of things happened. Also, Mr Tidswell referred to our regular customer survey work, and whilst they do not ask specific questions about debt they do allow customers to raise issues about the sorts of experiences they have had with Centrelink, both positive and negative. So we get some data through that about debt and about reviews, investigations and

those sorts of things. We have done some analysis of that to help us understand what the source of customer frustration might be.

CHAIR—We look forward to seeing some results. DEEWR emphasises the importance of front-line services and front-line service delivery in trying to avert some of these problems. Can you break down which Centrelink region, or whatever, has the best figures in terms of either not incurring debt or the lowest levels of debt or recovery of debt? Can you do that and then identify best practice?

Ms Rule—There are two main drivers of—

CHAIR—I wanted a really specific answer.

Ms Rule—I will.

CHAIR—Can you break down the data to the performance of each region?

Ms Rule—In one aspect of our business we can. If you can bear with me for a moment, there are two real drivers of customer debt. One is when we make a mistake and one is when the customer makes a mistake.

Mrs BRONWYN BISHOP—They still have to pay.

Ms Rule—That is right. When we make a mistake, we can identify where the best practice is. When customers make a mistake, we do not have that data on a regional basis.

CHAIR—I would think that the answers and the solutions do not rest in this room, that they rest with the people out there doing the work every day in Centrelink offices. I would put on the record that in my seven years of being a member of parliament I have seen a decrease in the number of cases coming to my office because of the outstanding work done and the coordination between our office and Centrelink offices. I think it is those personal relationships and the personal relationships they have with customers and their willingness to go a bit further that make a real difference. So I am very keen to know that you would be able to identify where best practice is happening and that you would be able to use it for overall performance outcomes.

Mr Tidswell—That is exactly how we work right across the board on all the things we do. We look for the pockets of best practice—you are right: it is out there—and look for those solutions.

CHAIR—But you cannot break down all the data for me in that way yet?

Ms Rule—We can in terms of where we make errors. I have got information that I can provide on notice about—

CHAIR—I do not need it. I want to know that you are actually scanning what is happening, that you are measuring what is happening on the ground, you are finding the innovative practices that individual offices and regions are putting into place and therefore rolling them out more widely.

Mr Tidswell—That is part of our culture of work that we do right across all the things that we do in the organisation. It is part of our operating principles, and we will come back with some advice about what we are doing in this area.

CHAIR—I am going back into my electorate office next week and I am going to ring up each Centrelink office and ask that that is happening, so thank you.

Mrs BRONWYN BISHOP—Can I put the question that I foreshadowed to you, and that is: what work have you done with regard to projected additional costs that you are going to have to bear—that the taxpayer is going to have to bear—with 134,000 job losses projected in the budget? In addition to that, with the prediction that unemployment is likely to rise to 5.6 per cent, what is the additional cost in payments that are going to have to be made by way of pensions? Have you done work on that?

Ms Rule—That is actually a policy question, particularly in relation to unemployment, for my DEEWR colleagues, I would have thought.

Ms Golightly—The department is providing advice to the minister on what might happen in terms of administered outlays, but, I am sorry, we do not provide advice on Centrelink costs.

Ms Rule—I think the question is about numbers of unemployed and outlays.

Ms Golightly—Yes. It is subject to advice to the minister, so I would have take on notice whether I can provide that information.

Mrs BRONWYN BISHOP—But you are doing work on it?

Ms Rule—We are.

Mrs BRONWYN BISHOP—And whether or not you can let us have that, you will seek advice on?

Ms Golightly—Yes.

Mrs BRONWYN BISHOP—Just to make sure that I heard correctly earlier, you have had an instruction that the money that is going to be paid on 8 December—the \$10.4 billion—is not to be used in any way for debt recovery.

Ms Rule—That is my understanding.

Mr Cassidy—That is correct.

Mrs BRONWYN BISHOP—That is an instruction that has been made; so it will categorically not be used.

Mr Cassidy—Yes.

Mrs BRONWYN BISHOP—And that may be, depending on the advice you give me, different from the way those payments have been treated in the past?

Mr Cassidy—It could be. As I said, we will take on notice the questions about previous bonus payments and the regime that has applied there.

Mrs BRONWYN BISHOP—Thank you for that. Going back to those age pension questions that I was asking and the way in which that very large debt has arisen for 46.5 per cent of age pensioners, is deeming a factor in that?

Mr Gemmell—Deeming would be a factor but deeming is the way you calculate the income attributable to the person. So it would be that the person's asset value—the assets that they had reported previously—differed from the situation at the present time. So you would calculate the deeming rate applicable to that asset and work out a relative income.

Mrs BRONWYN BISHOP—What I am implying is that when the deeming rate went up—and it went up dramatically as a result of the budget—did that immediately trigger a great percentage of debt?

Mr Gemmell—No. With respect to the average value of age pension debt, it has actually been trending downwards, not upwards. While there has been an increase in the overall debt for the age pension, a lot of that is actually the result of the increased number of people on the program. But the average value has dropped from about \$389 in 2005-06 to \$357.68, as of the first quarter of 2008-09, which is the most recent data I have.

Mrs BRONWYN BISHOP—What does that represent?

Mr Gemmell—That is the average debt being raised.

Mrs BRONWYN BISHOP—That was not my concern. My concern is that, as shown in the report, 46.5 per cent of age pension debt is in fact very large debt—that is, over \$20,000. I am not interested in your average figure; I want to know how come we get nearly 50 per cent of people with a big debt. How does that happen?

Mr Cassidy—That goes to the nature of the age pensioner and the different nature of the different payments. So for the working age payments, it is whether there is regular contact between Centrelink and the—

Mrs BRONWYN BISHOP—They say that in the report, but how does it happen?

Mr Cassidy—It happens because in the age pension we do not have those same activity requirements—

Mrs BRONWYN BISHOP—No. What I am asking is whether it came from deeming when the rate went up and people did not pay attention to that and they went on receiving the same amount of money. Did it come from an asset being revalued and pushing them out of entitlements which they did not take account of? What is the cause of that \$20,000 debt?

Mr Cassidy—There would be a range of causes. Some are certainly around real estate values. We have been putting in place over a number of years measures to address that.

Mrs BRONWYN BISHOP—But you must know what is the greatest cause. You must know.

Mr Cassidy—For the large debts, some would be around real estate values and some would be around basic qualification issues—whether people were qualified or not—and whether they ceased to be qualified at a certain point and how long it took for—

Mrs BRONWYN BISHOP—But what is the cause of their ceasing to be qualified?

Mr Cassidy—An age pensioner would not necessarily be starting work. It may be a marriage-like relationship issue—

Mrs BRONWYN BISHOP—No, Mr Cassidy, not ‘may be’, you must know. You cannot be running those departments and not know.

Mr Gemmell—It is possibly best to take it on notice and we can segment it for you. We do actually have it segmented back in the office by types of debt. We have arrays of data.

Mrs BRONWYN BISHOP—But you see the whole of this report is about the fact that there is no prevention measures being taken—or inadequate prevention measures being taken.

Mr NEUMANN—No overarching strategy, as has been said.

Mrs BRONWYN BISHOP—Until such time as you can identify what the cause is—and you must know what the cause is—how are you going to set out to prevent it? You must know. You cannot tell me that you will not know.

CHAIR—Can I direct that to the area of youth, where the debt base is the largest. Obviously youth have a high proportion of the debt. Can you give an example of an identification of a driver you have found that is making youth incur a great deal of debt and what strategies you have put in place to improve that—DEEWR?

Ms Golightly—I am just quickly looking at the figures for youth. We know for Newstart that non-declaration or incorrect declaration of earnings is the major driver, or change in marital status. If you give me a second I can check whether that is the same for youth.

CHAIR—I just want one little example where you could say: ‘We identified a problem with Newstart, we did this and this was the outcome.’

Ms Golightly—Yes. With Newstart, having identified that declaration or some problem with declaration for earnings was the main driver, we then worked with Centrelink to put improved processes in place for verification of earnings. That is showing good results. We also put improved processes in place for matching of data that we collect, for example, through our employment services providers. So when they know that someone has got a job, there is now an automatic message sent to Centrelink to notify Centrelink. They are probably two of the clearest examples.

CHAIR—Do you think we will see a flow-through benefit of that?

Ms Golightly—Yes.

CHAIR—When do you think that will happen?

Ms Golightly—I think they were announced in last year's budget and they have only just started, so we do expect to see—**CHAIR**—I do want to put on the record some of the good things that are happening.

Ms Rule—I have some figures about another issue.

CHAIR—Please tell us.

Ms Rule—It is what has been called CART, the Centrelink Academic Reassessment Transformation, which has been one of the drivers that we have found. Students were failing to tell us about a change in their study load in terms of being a full-time or part-time student and the impact that they may have on their payment. That was resulting in some large debts. So what we have initiated is the rollout of data exchange with academic institutions—universities and TAFEs. So far the reduction in customer debts for students at the participating universities has fallen by more than 70 per cent. So it is a really good example of a prevention exercise, where we get the data early and are able to prevent students getting into those debts.

Mr GEORGIU—I think it is important to note that the ANAO recommendations are directed precisely at you guys doing that sort of analysis—

CHAIR—They are driving the indicators up now.

Mr GEORGIU—I think that is important, because we are blaming them. We should not be blaming you for things that you are being told to fix and agree that you have to fix.

CHAIR—That was the point I was going to make. It is a perfect way to make sure that indicator is written down and that you have the measurement you want to achieve. That is what, I guess, the Audit Office and we want to see and we certainly do want to prompt that thinking that says, 'That is the problem. Let's do something about it.' I am sure another problem will emerge just as quickly to subvert that.

Ms Rule—It has to be a risk based approach. That is really the regime we have agreed with policy departments and with the Department of Human Services. We have to agree on understanding what those risks are. We have a lot of information already to support that. We have done some thorough risk assessment processes with our policy colleagues, and are developing programs to address those risks. We need to deal with this problem in manageable chunks, if you like, and target those areas where we are going to get the best benefit.

Mr GEORGIU—Can I ask you about waivers. You have got \$500 million plus in waivers. What are you waiving? Could we have a breakdown?

Ms Rule—I can take that question on notice in terms of a breakdown.

Mr GEORGIU—It is not a million by 50 bucks—there must be big lumps of money in there. Where do they come from?

Ms Rule—In terms of the breakdown of individual figures, I would have to take that on notice, but in terms of waiver, there are a range of reasons why we might waive a debt. Some of those are set in legislation and some of those policy settings, and that is what we apply.

Mr GEORGIU—Can you take it on notice to give as a break-up of that: how much by reason?

Ms Rule—Yes, I can.

CHAIR—Do you want to follow that up, Mr Neumann?

Mr NEUMANN—In section 1236 you have discretion in various categories. Can you outline which ones you have written off and for what reason—in categorisation?

Ms Rule—In terms of the data?

Mr NEUMANN—Yes, exactly.

Ms Rule—I can take that on notice.

Mrs BRONWYN BISHOP—At page 92 of the report where across the categories you note your success rate in recovery. DEEWR payments, 57 per cent; Newstart, 54 per cent; age pensions, 52 per cent; youth, 31 per cent—that is very low; parenting payments even lower at 30 per cent; and disability support, 48.9 per cent. When I look at the age pension, and I will stick with that at the moment, because I have been looking at it systematically, when you say you have a success rate, is that by number of claims or by amount of money? In other words, do your big debts get paid or do your small debts get paid?

Mr Williamson—It was by amount of money. The audit found that that was by the value of the debt.

Mrs BRONWYN BISHOP—By value of money?

Mr Williamson—Yes. That particular figure there, 5.6, relates to value.

Ms Rule—By far our most effective recovery regime is from customers who are on Centrelink payments. It is the most cost-effective, it is the most reliable, because—

Mrs BRONWYN BISHOP—You just take it out.

Ms Rule—That is right, and that is reflected in some of the sorts of payments up there like age pension, where people are on that payment for the long term. It is not like youth allowance, where people might come on and off payment. That is reflected in those numbers there.

Mrs BRONWYN BISHOP—Okay, but going back to the age pension, the big debts of \$20,000 plus, that is \$45 million. How successful are you in getting that back?

Ms Rule—As I said, because our most successful means of recovery is from existing payments, we are successful at getting it back over a long time.

Mrs BRONWYN BISHOP—But they are not going to live that long.

Ms Rule—Particularly if they are a full-rate pensioner, we are not going to take more money than they can afford to pay us.

Mrs BRONWYN BISHOP—Yes, I accept that. The reason I pursued that line of questioning is because it is in that area, it seems to me, that you should be focusing a lot of prevention measures to stop people at that stage of their life getting into that situation.

Ms Rule—That is right.

Mrs BRONWYN BISHOP—The distress it causes is enormous, the likelihood of you getting their money back is nil—well, they might live to 150.

Ms Rule—It is not nil but it is small.

Senator FEENEY—The chance of getting money back at 52.6 per cent.

Mrs BRONWYN BISHOP—Not in this section of the debt.

Ms Rule—That is whether prevention mechanisms like the one around the real estate valuations have been really important—to try and avoid people getting into those scenarios in the first place. Because, as you said, there are benefits all round for both the Commonwealth and the customer.

Mrs BRONWYN BISHOP—And individuals, yes. Likewise, when you come to the disability per cent, that is a very large debt proportion there, too. Which of the disability recipients are the ones that are finding themselves in deep debt and why?

Ms Rule—As a general statement, there are three big risks that we know of across payments. This is a generalisation, it is different from payment to payment, but largely it is around income—that is, people who are earning income and have not declared that correctly.

Mrs BRONWYN BISHOP—But they do not disclose.

Ms Rule—It is around people being in a marriage-like relationship and not declaring that or it is around assets. As I said, that is a generalisation but those are the three main risks that we see across payment types. Therefore, that is where you see a number of initiatives like the earnings verification measures, the real estate measures, financial institutions data exchange and a range of other compliance mechanisms that we have in place trying to address those risks. But we need to get better at addressing those risks earlier in the piece rather than after a debt has occurred.

Mrs BRONWYN BISHOP—We are getting rid of terms like marriage-like relationships; we are into de facto relationships. You can have several relationships that coexist. When the new provisions come in, are you going to count several?

Ms Rule—Are you referring to the same-sex law reform?

Mrs BRONWYN BISHOP—Not necessarily. You can be married. You can be in several—or any number of—de facto relationships. Are you going to count them all? There will be no marriage-like relationships anymore.

Ms Rule—No, there will not be. The language we are adopting around the same-sex law reforms is ‘member of a couple’

Mrs BRONWYN BISHOP—No, I am talking about the rest of it. The same-sex definition has gone. There are only de factos, but you can have them simultaneously. You can be married, with a legal piece of paper, and you can have—I don’t know—three, four or five de facto relationships.

Mr NEUMANN—What? You can be married and in a de facto relationship?

Mrs BRONWYN BISHOP—Let me say now that—and correct me if I am wrong—at the present time, you can have people who are married and have more than one de facto, and there will be social security payments made in effect of all of those, won’t there?

CHAIR—As long as they do not incur debt, we are fairly happy about it at this stage!

Mrs BRONWYN BISHOP—Is that true, Ms Rule?

Ms Rule—I do not know the answer to that question, but—

Mrs BRONWYN BISHOP—Perhaps you could take that on notice and come back to me.

Ms Rule—What I would say is that it is actually to the disadvantage of a customer to be in multiple marriage-like relationships or de facto relationships. They get paid less.

Mrs BRONWYN BISHOP—That is the point I am making. Therefore, if they are in that situation and they do not declare them all then they incur debt.

CHAIR—Thank you, Mrs Bishop, but I really want to pursue some of the things that we need some answers on. The report found that the existing arrangements and operations for the early intervention activity database were not, perhaps, cutting-edge. What changes have you made at this stage? It is that data that you rely upon. Are you able to tell me that the early intervention activity database is now much more accurate and better informs your identification of debt?

Ms Rule—As a result of the audit, we have done some substantial work to the technical side of that database to make it more robust and reliable. We have implemented the audit recommendations. The other thing that is currently under consideration, as we move into this new regime that we are agreeing on with policy departments and human services, is: how will

we measure prevention and what tools do we need to help us do that? Regarding the audit findings—yes, we have addressed those. The governance has improved. We have done some technical enhancements to the database itself, so it is a much more robust tool.

CHAIR—We look forward to seeing those in action. FaHCSIA, can you just tell me what proportion of the total payments made to anyone is debt? What is the ratio? What are we looking at?

Mr Cassidy—Of all FaHCSIA payments?

CHAIR—Of all payments, yes.

Mr Gemmell—I can talk about current year outlays and estimates.

CHAIR—Yes. That is all I need to know. I want to get a feel. Obviously, there are people who will always attract a welfare payment or a benefit payment—an entitlement payment in some way—and there will be people who will always incur some problems in managing that. Can you just give me an idea of what that ratio is?

Mr Gemmell—With respect to age pension, we expect just below 0.2 per cent of the current year outlay will result in a debt. With respect to disability support pension, it is in the same range. With respect to carer payment, it is a bit higher; it is around 0.4 per cent.

CHAIR—They are too busy, obviously! Can you give it to me on any other payments?

Mr Gemmell—They are the only ones we own.

CHAIR—Can anyone give me any others?

Ms Golightly—I have not got the ratio, but I have got some figures for you. For a financial year, we spend about \$17 billion in payments. That goes across Newstart, youth allowance and student payments, which are the big ones. In financial year 2007-08 the working age payments—that is mainly Newstart—we had \$502 million raised out of about \$13 billion in administered payments. For student payments we had roughly \$112 million raised—

CHAIR—You mean of debt raised?

Ms Golightly—Debt raised—for about \$4 billion worth of payments.

CHAIR—It would be interesting to see that ratio. Audit will not like this but there must be some level where there is some tolerance of a debt proportion compared to what we are outlaying—not that that is the practice you follow; I understand that. It just seems to me that it does illuminate the balance you need to find in assisting people and doing it efficiently.

There are just a few more questions and then we will finish up. The audit found that Centrelink and its purchaser departments had not implemented recommendation No. 22 about the debt waiver limit. The audit suggested that Centrelink undertake an analysis to determine the

amount where it is no longer cost-effective to pursue a debt. You did give some information about that earlier. Has the analysis been completed and have you made a decision on that at all?

Ms Rule—It is not a decision for Centrelink; it is a policy decision. But what we have done is work with policy departments to help to understand what the costs are for us to recover a debt so that that decision can be made.

CHAIR—So is there a sound base to understanding the cost-effectiveness of recovering these debts?

Mr Cassidy—That work is underway. The three agencies are working.

CHAIR—The audit suggested that Centrelink reassess the accuracy of debts raised by the compliance teams. Has that been undertaken?

Ms Rule—It has. As I expressed at the beginning, we have moved to consolidate the work done by debt teams, so it has been consolidated into a much smaller number of teams and therefore it is much easier to monitor and to drive accuracy. So performance has increased in that regard.

CHAIR—Mr Tidswell, are you satisfied that training is now constant for staff in Centrelink regarding debt recovery and debt prevention?

Mr Tidswell—We put a lot of effort into training right across the board. I am satisfied we have got a training program of what needs to be done right across the various payment suites for people to do the right things by the customers. We are constantly reviewing that. We are putting a lot of effort now into our ‘getting it right’ strategies so that the decisions made at the first point of contact are the best decisions possible.

Mr NEUMANN—On page 43 of the report there are two graphs, which talk about the value of outstanding customer debt, June 2003 to June 2007, and the number of Centrelink debtors with outstanding debt, June 2003 to June 2007. June 2007 is a long time ago, as much as I would love to blame the previous government for all manner of ills. Can you tell us what the situation might be since then? You would have some sort of documentation that would help us to understand whether graphs 2.1 and 2.2 have gone up since June 2007. What are the actual figures?

Ms Rule—I can provide that on notice. We have already talked about the total quantum of debts that we had outstanding in the 2007-08 financial year. It is probably best that I provide those on notice in addition to the numbers we have already provided.

CHAIR—You have told us that if you were to do the next step in that top graph it would take us up to \$2.2 billion. Is that right?

Ms Rule—No, because this excludes family assistance. Excluding the family assistance it is \$1.52 billion. So it would be a slight increase from June 2007.

Mr NEUMANN—What about the next one—number of debtors?

Ms Rule—The number of debtors would be 661,000.

Mr NEUMANN—That is at 30 June 2008 for both of those, is it?

Ms Rule—The thirtieth of June 2008.

CHAIR—Have all our departments considered the impact of the new economic times—the changed world we are going to live in—and what risk factors may attach to your operations?

Ms Golightly—The simple answer is yes in relation to that.

CHAIR—It is nice to know we are prepared!

Ms Golightly—In relation to debt I suppose from our point of view for working age payments—mainly in students—it will still be around income declaration and marital status. We might—

CHAIR—In unemployment trends usually young people are the first ones to feel it.

Ms Golightly—And our ability and Centrelink's ability to recover those debts might increase because there might be more people on payment and we will have a regular supply, but it could decrease too as things get tougher.

CHAIR—Does FaHCSIA have any preparation for changes?

Mr Cassidy—The department certainly is looking at the changing environment and considering effects on both particular payments and across the board. In terms of assessing risk to outlays, we certainly do that work in looking at what are the current and emerging risks and then working with Centrelink and DEEWR and DHS as well in terms of how we address those risks.

CHAIR—Sadly, when demand and need goes up usually resources internally go down. So we hope that things do not affect your operations too badly.

Mrs BRONWYN BISHOP—Page 85 of the report, in dealing with recommendation No. 6 about accuracy and the value of debts and the QOL tool, the Audit Office says:

In response to Recommendation No. 6, Centrelink undertook an internal audit review of the accuracy of compliance debt raised during 2005. The review found:

- there was a significant error rate for debts raised by Compliance Teams, with more than 40 per cent of debts sampled containing at least one error;
- 37 per cent of Compliance Teams debts sampled contained more than one error, which alone would have resulted in the debt failing the audit test for correctness;

- 35 per cent of errors related to the incorrect calculation of the debt, and 23 per cent of errors related to the incorrect recording of earnings by the Compliance Officer;
- 40 per cent of records which had passed the QOL checking process failed the audit's test for correctness ...

Furthermore, on the subject of debt raising outcomes for 2006-07 the report stated in relation to the percentages of the number of debts that 45 per cent were determined, 36 per cent were waived and 19 per cent were finalised with no debt. In relation to the tool QOL, the Auditor said:

... if Centrelink continues to utilise QOL as its main quality assurance tool, then the necessary changes should be made to ensure it can be effectively applied to a broader range of functions.

All of that says: 'How accurate is that figure of \$1.3 billion debt, audited, plus the \$900 million for family tax benefits plus the half a billion written off—\$2.7 billion all together?' How accurate is that?

Ms Rule—The findings of that 2005 internal audit have all been addressed and implemented so I would be confident that that figure is accurate.

Mrs BRONWYN BISHOP—So no more errors?

Ms Rule—I could not say no more errors, but the level of errors would be substantially reduced from the number here.

Mrs BRONWYN BISHOP—What have you done to ascertain that that in fact is the case?

Ms Rule—The Quality On-Line tool is a regular quality checking mechanism that applies across our whole business and we have enhanced the ability of QOL to work on the debt processes and to help us to identify those errors and make sure that they are addressed.

Mrs BRONWYN BISHOP—In the report they say:

... given the magnitude of internal audit's findings, the ANAO considers that there is benefit in Centrelink re-assessing the accuracy of debts, through a statistical analysis of debts raised by Compliance Teams, to determine the effectiveness of the measures implemented.

Have you done that?

Ms Rule—We have, and that has helped to inform the decisions to consolidate our structure and bring those teams into a national network.

Mrs BRONWYN BISHOP—Okay. Thank you.

CHAIR—We have put quite a few questions on notice and there is some data that we have asked for. I thank all of the witnesses who have given evidence today. Thank you also for your willingness to put forward the requested information as soon as possible. Four weeks is usually our limit and we would appreciate it if you could comply with that.

Resolved (on motion by **Mr Neumann**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before us today.

Committee adjourned at 13.00 pm