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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

Reference: Review of Auditor-General's reports, first and second quarters 2004-05

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

Monday, 4 April 2005

Members: Mr Baldwin (*Chair*), Ms Grierson (*Deputy Chair*), Senators Hogg, Humphries, Moore, Murray, Scullion and Watson and Mr Broadbent, Ms Burke, Miss Jackie Kelly, Ms King, Mr Laming, Mr Somlyay, Mr Tanner and Mr Ticehurst

Members in attendance: Senators Hogg, Moore and Watson and Mr Baldwin, Ms Grierson, Ms King and Mr Laming

Terms of reference for the inquiry:

To inquire into and report on:

Review of Auditor-General's reports, first and second quarters 2004-05.

WITNESSES

COCHRANE, Mr Warren John, Acting Deputy Auditor-General; and Group Executive Director, Performance Audit Services Group, Australian National Audit Office 1

COWAN, Mr Paul Bernard, Acting General Manager, Business Integrity, Centrelink 1

HARTLAND, Dr Nicholas Gerrit, Branch Manager, Social Security Relationships and Compliance, Department of Family and Community Services..... 1

HOGG, Ms Carolyn, Deputy Chief Executive Officer, Business, Centrelink..... 1

HOLBERT, Ms Fran, Executive Director, Performance Audit Services Group, Australian National Audit Office..... 1

MEERT, Mr John, Group Executive Director, Australian National Audit Office 1

MORRIS, Mr Andrew, Senior Director, Performance Audit Services Group, Australian National Audit Office..... 1

WHALAN, Mr Jeffrey Robert, Chief Executive Officer, Centrelink..... 1

Committee met at 1.35 p.m.

COCHRANE, Mr Warren John, Acting Deputy Auditor-General; and Group Executive Director, Performance Audit Services Group, Australian National Audit Office

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HOGG, Ms Carolyn, Deputy Chief Executive Officer, Business, Centrelink

WHALAN, Mr Jeffrey Robert, Chief Executive Officer, Centrelink

HARTLAND, Dr Nicholas Gerrit, Branch Manager, Social Security Relationships and Compliance, Department of Family and Community Services

CHAIR—I open today's public hearing, which is one of a series of hearings to examine a report tabled by the Auditor-General in the first quarter of the 2004-05 financial year. This afternoon we will be taking evidence on Audit report No. 4: *Management of customer debt, Centrelink*. Today I welcome witnesses from the Australian National Audit Office, Centrelink and the Department of Family and Community Services to provide evidence on Audit report No. 4. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a content of parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege.

I will be running today's session using the roundtable format, with witnesses from the three agencies appearing together. However, I ask participants to remember that only members from the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I ask them to direct their comments to the committee. It will not be possible for participants to directly respond to each other. Also, given the short time available today, statements and comments by witnesses should be relevant and succinct. Each party may make a brief opening statement to the committee, and I will start with the ANAO.

Mr Cochrane—We are happy to let the report talk for us.

CHAIR—Do the Centrelink representatives wish to make an opening statement?

Mr Whalan—Yes. Thank you for the opportunity to make a statement. As you know, the ANAO made nine recommendations in relation to their work on debt within Centrelink, and Centrelink agreed to each of those. In terms of progress against them, some of the work that has

been undertaken includes the forming of an internal debt integration steering group to better coordinate the management of debt issues across Centrelink; some work which will target payment accuracy, which is almost completed; new debt raising recovery output measures, which have been completed and put into place; and new structural arrangements, which we can talk about further.

We are currently working with the three departments responsible for managing the Social Security Act to identify new measures against which to measure performance in this area. I note that previously the Department of Family and Community Services was the single department responsible in this area. The responsibility is now shared partially between FaCS, the Department of Employment and Workplace Relations and the Department of Education, Science and Training. We have a range of internal audits under way and we are looking at developments in this area as well. You may choose to ask us to expand further on the progress in these areas, and I look forward to your questions.

CHAIR—Do the representatives of the Department of Family and Community Services wish make a statement?

Dr Hartland—Recommendation 2 is the recommendation that is most relevant to FACS. As Mr Whalan has mentioned, we have done some work around that already, and there is still some work to be done—particularly around prevention and identification KPIs—but that is something we are working on with Mr Cowan’s area in Centrelink. The only thing I would add to that is that we did find the framework that the ANAO suggested in relation to KPIs to be very helpful, and it came at a helpful time while we were redeveloping our business alliance with Centrelink last year. Although we were not able to integrate it into all of the work on that, it was very helpful to us at the time.

CHAIR—The report by the Audit Office was tabled on 2 August 2004. The inquiry commenced in mid-2003. Can you outline what has been done since then to meet some of the recommendations put forward by the Audit Office?

Mr Whalan—I gave some preliminary comments, and Mr Cowan may want to add to those.

Mr Cowan—Recommendation 1 refers to replacing Centrelink’s current debt servicing strategy. That strategy had an envelope of 2001 to 2004. It has run its course. During the second half of last year, we commenced work on developing a new strategic framework for debt management, which takes up some of the issues raised in the audit to do with having a more integrated approach to debt management and integrating debt prevention particularly into our activities. It takes the approach of developing a service integrity strategy that runs from end to end—that is, taking into account the initial point of contact with customers right through to the debt prevention management compliance regime. A debt specific strategy will form part of that, but we are adopting a new approach consistent with the findings of the audit to have a more comprehensive view of debt management to make it quite clearly a core business rather than just a rear end quality control element of the operation. That strategy will be complete by 30 June this year.

Senator HOGG—When will it be implemented by?

Mr Cowan—It will be implemented by 30 June 2005. Recommendation 2 refers to output measures for debt prevention, identification, raising and recovery. We have implemented new output measures for debt raising and recovery. They will commence on 30 June 2004. They have been implemented right across the organisation. They have been supported with other work we have done within the organisation. We commenced development on debt prevention and identification jointly with FACS last September. We signed an MOU to work to develop an output measure for those two functions. With the change in the AAOs, that did not proceed; we could not proceed with that bilaterally with FACS. We recommenced dialogue with the three agencies—the Department of Employment and Workplace Relations, the Department of Education, Science and Training and FACS—early this year, and we are progressing that work now to develop a robust understanding of debt prevention and a way of measuring it that we can embed in the organisation. We do not have an end date for that, but the work is under way. It is a matter of coming up with something that the parties can agree is a robust measure and then running it through the organisation.

CHAIR—What do you agree with qualification? What is your qualification?

Mr Cowan—Some of the wording in the document qualified the benefits of the revised output measures for raising and prevention. We thought they were sound, and they have been shown to be sound in operation throughout the network. Also, we and FACS were not completely convinced that we could in fact come up with a robust measure of debt prevention. We certainly undertook to do it, we will certainly endeavour to do it, but it is not simple to measure something that does not exist. However, that was the basis of our qualification. It is not a substantive qualification to the recommendation.

Dr Hartland—I would say very similar things. The qualification was around not being entirely certain that we could make a measure of debt prevention work in a practical sense. We were very concerned about the measurement issue—about whether it would be possible to measure prevention in a rigorous and consistent way. We also wanted to make sure that, before simply adopting any new KPIs, we had thought through all the drivers that might have on the Centrelink network. We were very concerned that the KPIs that we set Centrelink did not result in anomalous results in the network to the disadvantage of customers. It was really a practical issue, I think. We agreed with the framework.

CHAIR—Does the Audit Office have a comment on that?

Mr Cochrane—The first point to make is that, where an agency agrees with qualification because it is reflecting on the ability of the agency to implement that qualification, I would rather have that thought process going on than no work at all, so that is at least a positive.

Mr Meert—The other point to make is that the recommendation would not be suggesting that there is only one indicator. It goes through the normal process of performance indicators. We are talking about a range of indicators that would inform the agency whether the preventive strategies are working. We would be looking not for ‘A equals B’ but for a range of indicators that could say, ‘Yes, this is working,’ or, ‘We need to change our prevention strategies.’ I do not think there would be disagreement between us on that.

Mr Cowan—Recommendation No. 3 recommends that Centrelink monitor customer satisfaction with the administration of debt raising recovery. This project is under way. It is being done in two parts. One is a two-phase customer experience survey. The first phase was done last year. It surveyed customers who had been contacted either by phone or mail shortly before the survey commenced with respect to a debt. It was to determine their perceptions on the contact and any issues they had around the debt and the way they were interacted with by Centrelink. There is a subsequent element to that particular piece of work which is under way at the moment. It goes back to those customers and looks at their case to see whether there is a correlation between their experience at the time they were contacted about the debt and the outcome of the process as to whether they repaid the debt or what actually ensued. We expect the findings of the second part of that within the month. We will have something to work on there. That is the first part.

We are also doing a series of value creation workshops in May with customers which will explore a range of issues to do with their interaction with us. We are currently refining the targeting of that with respect to the geographical area and the program mix of people. We will be doing that in May and we should get something of use in June. Then we will develop our response to that on a number of fronts. Any number of issues could come from this activity, so we will develop our response to this early in the next financial year.

Senator MOORE—Is the first survey a random survey?

Mr Cowan—In part, but we did target people who had been contacted over a relatively short period in October.

Mr Whalan—It is a random selection of those people.

Mr Cowan—We did not go through customer records and identify specific people.

Senator MOORE—Is it across the country—across all areas?

Mr Cowan—Several areas—not 15 areas. For the sake of the exercise we have targeted a few areas and as best we could we have tried to get a range of programs and geographical areas.

Senator MOORE—Is it the expectation that it will become a common process, or is it a snapshot to see what you get out of it, how it goes and all those kinds of things?

Mr Cowan—We might just have to wait and see what it delivers. It is part of a corporate approach to survey customers. We tapped into that element of our organisation that does that work.

Senator MOORE—Has that been done before in the debt recovery area?

Mr Cowan—This is a new approach for the organisation; it just happens to be applied to the debt area. It is new in a number of ways, as I understand it. It is essentially a longitudinal study but over a relatively short span of time.

Senator MOORE—A short longitudinal—

Mr Cowan—Yes, that is right.

CHAIR—Dr Hartland, do you have any comments that you wish to add?

Dr Hartland—No.

CHAIR—We will move to recommendation No. 4 then.

Mr Cowan—Recommendation No. 4 states:

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 ...

We undertake quite a number of debt prevention activities across the network. We have progressed this area in a number of ways. We have a new agenda that we are running called 'Keeping the System Fair', a voluntary compliance activity which allows us to embed in the network a team of 15 people across the country whose job is to provide a more strategic focus for debt prevention activities and do the sort of local level analysis that is appropriate to support the work that is going to be done in the marketing campaign.

Senator MOORE—Is that one per area?

Mr Cowan—No, it is not exactly one per area. There are 15 areas, but it is not exactly one per area. We have actually placed them to fit larger population groups. It is a tapering set of resources, so we made sure that we are going to be able to leave a residual resource in areas when the taper happens. So it is not a uniform allocation across the areas, but it is certainly going to operate in all areas, with area staff who are focused on debt prevention activities. As part of providing the strategic focus, these people will be doing a review of activities in the areas and making sure that they are consistent with the broader thrust of our operation.

This activity will have two elements of other work which are going to factor into it. One element is the work on service integrity that I mentioned earlier. It will provide a much broader focus to debt prevention, with an end-to-end process right from the first point of contact with customers rather than just a reactive process. That is going to provide a strong focus for this area of work rather than it being a discrete element of our operation. The other element is the development of external output measures for debt prevention. On that point, I agree with Mr Meert that we look like we are going to have a series of measures to do that. That will also provide the proper framework in which the debt prevention activity can work.

CHAIR—We will now go to recommendation No. 5.

Mr Cowan—We will continue to work in this area, but defining a set of internal performance measures, as stated under recommendation No. 5, is really dependent upon getting a sign-off on external performance measures. So one follows the other.

CHAIR—Would the Audit Office like to make any comments on recommendation No. 5?

Mr Meert—No.

CHAIR—We will move to recommendation No. 6 then.

Mr Cowan—Recommendation No. 6 states:

The ANAO *recommends* that Centrelink undertake a review of the accuracy of the value of debts determined and raised by its Compliance Teams—

and, of course, act on the results. That is under way at the moment. It is looking to deliver a report at the end of this month. We looked at debts raised last year, we have been doing an analysis of that and we will have the results of that at the end of the month.

CHAIR—We will now move on to recommendation No. 7.

Mr Cowan—Recommendation No. 7 is:

... that Centrelink analyse the appropriateness of applying debt waivers throughout its network ...

We were to do this initially, along with our actions on the previous recommendation, but it did not prove to be practicable. That is now due to commence and we will have the results of that by the end of June.

Ms GRIERSON—Can you explain that in a little more depth for me?

Mr Cowan—That refers to the provisions under the legislation for our people to waive debts. The provisions are relatively restrictive but they allow our staff to use their discretion or to act in areas where they see that a debt may have arisen through administrative error or is a result of rare and unusual circumstances. The audit found that, whilst staff understood those provisions, they did not use them very much—they were loath to use them—so we are doing a review. We have not previously reviewed this area so we are having a look at what the practice is and whether there is in fact an issue there for us.

CHAIR—Why were staff loath to use sections 1237A, AB, AAA and AA?

Mr Cowan—‘Loath’ is probably the wrong word.

CHAIR—Why don’t they exercise their delegation?

Mr Cowan—The findings from the Audit Office were that they would prefer to make the decision if in doubt and raise the debt and rely on the review processes for people to appeal to the ARO, SSAT or AOT. That was the finding in the audit.

CHAIR—Let us now move to recommendation No. 8.

Mr Cowan—Recommendation No. 8 in part recommends that Centrelink:

... proceed with the planned implementation of a nationally-based approach to its recovery operations ...

We have done that—it came into effect on 1 October 2004. We have restructured and centralised our debt recovery operations from 15 areas down to five sites now. Three of them deal with debts of up to \$5,000 and two deal with debts of \$5,000 or more. Recommendations Nos. 8 and 9 do overlap a little, so I need to make sure my answer relates just to No. 8. Recommendation No. 8 further recommends that Centrelink:

... upgrade the recovery infrastructure ...

We have dealt with this in two ways, in accordance with the ANAO's findings. Firstly, the ANAO saw that Dun and Bradstreet, whom we use, have much better telephonic technology than Centrelink and they suggested that we utilise them. We reacted to that in two ways. Firstly, we have increased the number of debts we forward to Dun and Bradstreet, to maximise use of their technology. Secondly, we are introducing a new computer technology integrated telephone system, which we are bringing in in phases. It is a smart router that will help to buffer workload and it will send incoming calls to any one of the appropriate five teams. There is potential to upgrade that as time goes on to allow for pop-up screens when customers ring in and identify themselves. That is the response to recommendation No. 8.

Senator MOORE—So, in terms of the structure of the response you have given, all areas will raise debts but the recovery process will be done by these key centres that are linked to some areas. Is that right?

Mr Cowan—Yes. They are established within area structures.

Mr Whalan—They are provided food and board at the area level but they are linked nationally.

Senator MOORE—Are they funded nationally?

Mr Whalan—Yes, effectively, and controlled nationally.

Senator MOORE—And the client may not necessarily know that; they will just know that they are having their Centrelink debt looked after?

Mr Whalan—That is right. They will ring a common number, and progressively, as that software comes in, they will be efficiently routed to a person in one of those five teams.

Senator MOORE—So, when a person calls in they will be asked questions—or met with some kind of introduction—and if it is to do with a debt it will be routed?

Mr Whalan—That is right, yes.

Senator MOORE—The expertise in debt recovery will be focused in those areas then?

Mr Whalan—Yes.

Senator MOORE—Certainly, one of the things that came out in the whole area was the sheeting home of responsibility for the debts to the individual area managers—and to everybody,

actually. If you are a manager in an area that is not one of the key areas for debt recovery, what will be your responsibility in debt recovery?

Mr Whalan—Let me give you a general comment and then Paul can add to it. Wherever we try to centralise things across the organisation, there is always the problem about how you get accountability back to the individual or the individual customer service centre.

Senator MOORE—Yes, it is about ownership.

Mr Whalan—We will have to be good at actively providing feedback on individual cases—and on numbers—back to areas. I think that will be the best way of doing it.

Mr Cowan—That is true. The actual responsibility for managing the function is essentially shared between the five area managers, me and one other national manager, who has another interest in the debt recovery activity. That is actual responsibility for the day-to-day operation of the debt recovery function but, as Mr Whalan says, there is an important need to be conveying this information back, because there is a lot of intelligence gathered through the debt raising and debt recovery processes.

Senator MOORE—If you happen to have one of the debt recovery units in your area, you have the responsibility for the ownership of that at one level but then each unit would have their own manager that would be responsible for the activities in that debt recovery unit? If your area has one of these centres, the area manager for the area is responsible for the operations of that centre, just as he or she would be responsible for one of their regional offices?

Mr Cowan—Yes, that is right, on a day-to-day basis.

Senator MOORE—Then within the unit there would be a manager, I would imagine, at the same level as a regional manager—somewhere in that ballpark—who would have the responsibility for that unit operationally?

Mr Cowan—I think that is right.

Senator MOORE—Do the managers feed through to you in Canberra?

Mr Cowan—We have a number of mechanisms for keeping in contact. We have teleconferences monthly. We have had them since this thing was put in place.

Senator MOORE—They should be a lot of fun.

Mr Cowan—They are fantastic fun. We get regular reports on performance, because a number of things happened at the same time: we had the restructuring process plus the new output measures, so there are a number of factors at play. We have been monitoring this very closely and doing it in a collegiate way with the five area managers who are have the units in their areas.

Senator MOORE—Are the reporting mechanisms all the same so that you have the same process of reporting?

Mr Cowan—Yes.

CHAIR—Before we get into questions, perhaps you would like to talk about recommendation No. 9.

Mr Cowan—The recommendation is that we:

... continue with the development of:

- a national training program for Recovery Officers ...
- debt recovery scriptors for use by Recovery Officers ...

We have done both of those things. We took the opportunity of the restructuring to revisit the training of debt recovery officers and we developed and implemented a training program consistently across the country before 1 October. So all of the officers that were on deck on 1 October were trained in a nationally consistent training package. That training package is still in place. Those units were not fully staffed on 1 October, for a number of transitional reasons, but as people have come in they have been trained in the same training program. We have also developed scriptors for the staff. There is a script to assist our recovery staff in their dealings with customers and also there is an account recovery script to assist recovery staff in handling repayment arrangements under the various types of options that are available to them and seeing how that can be done.

Mr Whalan—That training was done in conjunction with the welfare rights organisation.

Mr Cowan—We invited them to be involved in the development and also the delivery of training, so they had representatives at each of the training sessions. They made a very useful contribution as to the customer perspective in the debt recovery experience. That was very worth while. It was well received by staff and the response was well received, as they have led us to believe, by the welfare rights people as well. We have now bedded this all down and we actually have our internal monitoring processes of performance against the output measure as well as other day-to-day quality issues. We have also got an ongoing relationship with the National Welfare Rights Network, which act as somewhat of a litmus test. We have direct contact with them and a single point of contact for them if they raise any issues. The number of issues that they have to raise is dwindling rapidly, so it is showing itself to be an effective method of operation.

CHAIR—I will start by asking: why are people incurring debts with Centrelink?

Mr Whalan—My initial reply to that is that the majority of people who incur debts in relation to Centrelink payments do so because their circumstances change and they do not provide advice to Centrelink about that fact.

CHAIR—I assume you run a software program that works out what their entitlement is; I would not think you would be sitting there with an abacus. Does that have the capability to—if a person comes in at a point through the year, has a level of payment and is entitled to a lesser payment from thereon—average down their payment so they finish the financial year with no debt?

Ms Hogg—After we find that somebody has received an incorrect entitlement we have to manually go in and change the system, if we have agreed with the customer that we are going to reduce the payments, to recover the debt. It is actually a physical action that has to take place. We do it once and it will spread it out for the rest of the year.

CHAIR—How efficient is that action?

Dr Hartland—I think also there is a distinction between the entitlement, which is fortnightly for the payments that were subject to this audit, and some other systems where you have an annual entitlement. So the question of averaging down to get an annual net zero figure is relevant. These are fortnightly entitlements and you are paid, I guess you would say, your entitlement each fortnight. Then there is a separate process if a debt is being recovered whereby an arrangement will be made to withhold some of that entitlement. There are some rules around how much can be withheld.

CHAIR—I am not yet at the point of recovery. I am talking about when a person has an entitlement to a fortnightly allowance and they go back into the work force, generate an income which reduces their entitlement and advise you. Is it reduced to what their entitlement is at that point or is it averaged down compared to what they had not earned before and are earning now?

Dr Hartland—If they had advised us at the time that their circumstances had changed then they would be paid an entitlement and there would most likely be no debt in those circumstances.

Ms Hogg—It would just be reassessed from that point on and they would be paid the correct entitlement every fortnight automatically.

CHAIR—Would they be paid the correct entitlement or an averaged down entitlement that would produce zero debt at the end of the year?

Mr Whalan—I think a distinction needs to be made here. Dr Hartland had a go at that. Let us use Youth Allowance or any employment related payment as an example. Usually a debt is incurred by someone not telling us about a change of circumstances. If John Smith rang up and said, 'I've got some part-time earnings,' we would immediately change his rate of payment in accordance with that. If a debt was incurred, we would deal with that separately. You said you did not want to get to that point at the moment. In the family payment space—and I note that this audit excluded the family payment space—there is a different set of issues when you are trying to estimate a prospective outcome as opposed to a retrospective event. Today we are talking about payment types that are purely about retrospective events rather than prospective outcomes.

CHAIR—If your computer management system and the people there find it hard to come back to zero debt, how do you expect the people that you are paying it to to understand the system?

Mr Whalan—Once again, if we are only talking about events that are retrospective, as soon as they advise us we can tell them the impact.

CHAIR—I will come back to that. Page 31 of the report shows that at 30 June 2003 you have a benchmark debt of \$967 million for 600,000 people, which equates to roughly \$1,611 per person. How does a person incur that much debt?

Mr Cowan—The size of debt varies across programs, depending upon the nature of the program. For the stimulus payments, like Newstart or the disability support payment, generally the debts are quite small because, as Mr Whalan said, we are in regular contact with customers and we find out their changes of circumstance more quickly. For other programs, like the age pension or some of the youth programs where we are not in fortnightly or more regular contact with customers, debts can accrue at a relatively small amount for a longer period of time and by the time we find them the debts are large, even though there has been a relatively small variation.

Dr Hartland—The benchmark debt reported there includes debts of people who are no longer customers of Centrelink. The average for Centrelink customers is somewhat less than the \$1,000 figure.

CHAIR—The next question is about the graph on page 31. You seem to have a downward spike every January. Why is that the case?

Mr Cowan—That is probably to do with debt raising activity over the Christmas break when there are staff shortages and other commitments. This relates to the balance of debt outstanding. Debt recoveries tend to come in on a more regular basis because many of them are automated or they come back by way of withholdings. Debt raising activity, which is the other side of this balancing item, probably does not occur at the same rate over the Christmas break because people are on holidays and there are staff shortages.

CHAIR—Which form of payment has the greatest incidence of debt?

Mr Cowan—The greatest likelihood of incurring a debt is for people on Newstart.

Mr Whalan—That is because of people entering part-time employment.

Mr Cowan—That is right. We have a very flexible labour market and 30 per cent of the work force is involved in some sort of flexible employment arrangement. There is a lot of movement into and out of that sort of employment arrangement.

Dr Hartland—Once the economy improves and people's employment changes people get transactional debts. When people get employment the act gives them a grace period of 14 days but if they come into Centrelink after the 14 days they may well find that they have a small debt.

Mr Whalan—The better the economy, the greater the number of debts occurring in that area, as more people enter the work force.

CHAIR—On page 34 of the report there is a graph which shows debts raised and recovered. It shows that in 1998 you pretty much recovered it all, bar a small portion. Looking at this graph, I take it that your ability to recover debt, as a percentage of debt owed, has decreased since 1998. How do you explain that fact, given that there is not that large a difference between the amount of debt in 1998 and the amount of debt in 2003? Perhaps in real terms there was less debt in

1998 because the value of the dollar was a lot higher. How do you explain your lower ability to recover debt?

Mr Cowan—There are two things going on there. We are getting much better at finding debt through our electronic interfaces, data matching, service profiling and other tools which we have in place and which we are constantly refining. There has been a process of continuous improvement. We do not have the same flexibility with respect to recovery. For current customers, who make up half the debtor base, the most common way of repayment is by withholding payments, and there is a ceiling on that of 14 per cent of ongoing payments.

As well as that, we are dealing with a group that are either welfare recipients or have just recently moved into the work force. Their capacity to repay quickly is not great. We are obliged under legislation to recover debts as quickly as possible without causing undue financial hardship. So these sorts of factors impact upon our capacity to recover at the same rate as the increase.

CHAIR—You have stated that the people who build long-term debt of three to five years are predominantly age pension recipients. You have said that if it is not found within six years it is forgiven. I think ‘waived’ is the correct term. What are you doing to get better information out to those people so that it reduces the incidence of incurring debt?

Mr Cowan—There are a number of different mechanisms in place to convey information to our age pension customers. We have regular newsletters that go out to customers to provide them with information, to ensure that they are aware of their entitlements as well as their obligations and to encourage them to nominate any change in their assets or income. We use other conduits, such as financial advisers, to convey information as best we can. We have a number of mechanisms to make sure that our customers do get information and, if in doubt, can come and contact us and advise us of a change of circumstances so that these sorts of things do not continue to accrue.

Dr Hartland—In the last budget the government decided to allow us to run a media campaign to tell people about their notification obligations. We are hopeful of getting those ads onto the screen fairly quickly, so that will also provide a mechanism to help customers to be aware of what they need to tell Centrelink.

CHAIR—It concerns me as I read the reports that your bias seems to be all about recovering debt rather than preventing debt occurring in the first place. Don’t you think it would be better to invest more effort and time in debt prevention rather than purely working on the aspect of recovering debt? You have talked about additional training opportunities for people to better manage how to recover debt, to develop better script and all those sorts of things. What increased effort are you putting into place to prevent that?

Mr Whalan—I might kick off there and Ms Hogg can add further information. I am sorry, Chair, if you have got that impression. The organisation puts huge effort into trying to prevent debt. Half of our activities in this area, which is about accuracy first of all, are with the original customer service officer dealing with a customer and trying to provide the best information possible. They try to elicit the right information and as much information as possible from the customer to ensure that they get as much information as possible as readily as possible.

In addition to that, there are a lot of things happening in terms of electronic connections to try to improve things. For example, in Youth Allowance we know that the majority of debts are created because of changing course requirements for the young student who then does not advise us about those changing course requirements. They then fall below a threshold where the payment can no longer be paid. We have been working to put in place direct electronic connections with academic institutions so that we can exchange data directly to try to avoid debts. We have other trials in place with major employers to try to exchange information with them. We have other trials and initiatives under way where the individual can look at their own records. We know that a lot of the errors that occur are as a result of the multiple passing on of information. There is a huge amount of effort in that area.

CHAIR—Are you saying that you have moved to a model where people can access their information on the internet?

Mr Whalan—We are progressively moving to that, yes.

CHAIR—Can they notify you via the internet of their change of circumstances?

Mr Whalan—Progressively, yes.

CHAIR—How long before that model is fully rolled out?

Ms Hogg—This is actually a government initiative over four years, I think, the next financial year—where it will be fully online—being the last one. In each system release we have, we try and put new pieces of information up on the web. The most popular piece of information—the most accessed at the moment—that we have put up there is around debt. So by far the biggest interest by our customers, particularly where they already have a debt, is in how much—

CHAIR—That does tend to focus the mind a bit.

Ms Hogg—It does. If you look at how often they look at that information, it is quite true that they are concerned when they have had a debt raised against them. But this customer account, as we call it, will also provide information to people through a statement like the statements you and I get about our circumstances. It will be a reminder of what Centrelink is actually holding in terms of their assets, their income and those sorts of things and of the need to update the information.

Ms GRIERSON—Will that statement be posted?

Ms Hogg—It can be, yes.

Ms GRIERSON—Because there was talk in the report of the possibility of call centres ringing people up and telling them about it.

Ms Hogg—Yes. One of the issues raised earlier was about the review that we are currently doing, which is really about service integrity. We want to try and make the services that Centrelink delivers a lot more personalised, in that, when we first deal with the customer, our conversation will be around how people understand information, because now we are getting the

technology which enables us to provide a lot more choice in the way that citizens deal with us. So we will ask customers about how they understand information, how they can better access it and how they want us to communicate with them. Do they prefer it in writing, would they like to have it on the internet, or would they like us to talk to them personally? Basically, from a cost-effectiveness point of view, in terms of the work we have to do down the track as result of customers perhaps not understanding information, the business case will largely be around it being more cost-effective to take the time at the front of the process, help customers through and determine the best ways they understand information, rather than leaving it to one methodology or one medium and then obviously having lots and lots of phone calls down the track because people have not understood or they have missed the need to do something.

Dr Hartland—Looking wider, too, into the compliance world, the need to improve prevention is an aspect that the government and ministers have been aware of for some time, and the campaign is one aspect of that. We are hopeful that service profiling, for example, will also have prevention outcomes by getting contact to people at the time that they are more likely to have their payment wrong. Notwithstanding what we said before about the difficulty of measuring some of these things, we think there is some data which shows that there has been a prevention effect of the government's investment in the compliance network—for example, the average size of debts that are being raised has been going down in real terms. We would like to do some more work around that, but we are hopeful that that is indicating that we are getting to debts at a better time and not letting them grow.

Ms Hogg—Last but not least, we are just running some trials at the moment for people who normally have to bring in a form once a fortnight to Centrelink to declare their earnings so that they can do that over the phone. They can tell us how much they have earned that fortnight, rather than having to come in with the piece of paper, especially if they are working.

CHAIR—How long will it be before that progresses so they can do it on the internet?

Ms Hogg—Probably before the end of next financial year.

Ms GRIERSON—Can I just raise a question about phone calls. As a member of parliament representing many people who have problems with Centrelink, I know that the problem is often a call centre call that has not been recorded—there is no entry, or an entry with no notes. This happens over and over again. One would have thought that for call centre operators there would be fields that you must put something in.

Ms Hogg—Yes. That is actually our standard procedure, to record the conversation. And, of course, customers can ask for receipts for information that they have given. So, if the people you are talking to are not being told that, we probably need to remind our staff that we can do that.

Ms GRIERSON—Could we get those records?

Mr Whalan—Having been on a call on Friday in Adelaide, I could hear the customer saying, 'Can I have a receipt number?' and I asked the operator, 'Why did they ask for a receipt number?' He said, 'That's because, when you are waiting in the queue, one of the messages you get is "If you'd like a receipt number, please ask for a receipt number".'

Ms GRIERSON—That can end your conversation with them, rather than transacting any business—is that right?

Mr Whalan—No. What this customer did at the end, having gone through the process of dealing with the operator, was say, ‘Look, can I please have a receipt number?’

Ms GRIERSON—It is before they are transferred to someone. Is that what you mean?

Mr Whalan—No, this is the person dealing with it. Say Bill Smith rings up the call centre. The call centre asks for identification and brings up on the screen the record of Bill Smith, including the history. Often they are ringing to say, ‘Can you tell me when the next payment is?’ or ‘I’ve got this letter, and I don’t understand it.’ The call centre operator can deal with most of the issues over the phone. Bill then gets worried about how he can make sure that he has a record of that event and asks for the receipt number.

Ms Hogg—That is also being introduced into the offices as well, from this year. If you come into reception, we will give customers a receipt for the information they have given us.

Mr LAMING—I want to go back to newstart. It seemed to me that, looking at the figures overall for Centrelink, about 12.5 per cent of clients were in debt and that average debt was just over \$1,000—600,000 out of eight million.

Ms Hogg—I think it is about five per cent.

Mr Cowan—It is six per cent. Of those 600,000, less than half are still benefit recipients at that time.

Mr LAMING—Going to newstart, how does that compare? Is it more than 10 per cent?

Mr Cowan—It is more than 10 per cent; it is closer to 15 per cent.

Mr LAMING—And is their average debt more than \$1,500, which is the average?

Dr Hartland—The average debt for all customers is just under \$600, and newstart is about the same.

Mr LAMING—So it is around the same.

Dr Hartland—It is slightly over \$600—it is a couple of dollars over.

Mr LAMING—That goes to my question—and you have just touched on the idea that you have third-party groups such as employers and universities who can assist. Has there been any thought given to novel means of getting people to self-declare and even receive a bonus for self-declaring? I do not know if there is adverse selection but, if you have an average debt of \$500 and one in every 10 people is a debtor, is there a possibility that it is worth between \$50 and \$100 for someone to tell you that their circumstances have changed?

Dr Hartland—I think that would raise some very interesting policy questions for ministers to consider. I can see why you would say that—under the act at the moment the only incentive to ring up is to not get a debt—but there would be equity issues in giving a positive incentive of more payments. You could have someone who had been doing the right thing all along and had not got a debt and who would miss out on a bonus. I suspect parliament might be inclined to change the legislation in that respect for some time but—

Ms Hogg—A lot of the debt is not because they did not declare but because they declared incorrectly. There is always an issue about net and gross. We take the gross figure, and often customers declare the net. It is not until we do the match with the employer that we find that. They have usually tried to do the right thing; it is just the interpretation of how we treat the income.

Mr Whalan—Another issue is that often they report on their earnings statement rather than on the days that they earned it, and they can often be different things.

Mr LAMING—Can you explain that?

Mr Whalan—For example, if someone has worked for two weeks in February and then got a statement in March for four weeks pay, they sometimes report on the statement in March rather than ringing up in February and saying: ‘I haven’t got my statement yet but I’ve actually worked for two weeks. This is the amount of money I’ve earned.’ They will wait for the statement, which starts to throw everything out of gear.

Ms Hogg—A similar thing is that their actual pay fortnight, which is determined from when they first claimed, is not the same as the working fortnight. Again, especially if you are casually employed, you can think you have earned that much in that week whereas your pay fortnight for Centrelink is different. So there can be a mismatch. It is a difficult area in terms of how we treat income and how it works. With the best will in the world, the customer can get that wrong unintentionally. We are not trying to give the impression that this is misrepresentation of their circumstances; it often is not.

Senator MOORE—I will start with the last bit, in terms of the ongoing issue, particularly regarding casual employment. It would seem that a large number of the complaints that we all get about debts is that people have been confused by the process of when they are expected to declare what they earned. That can go on for a while. Is there any research continuing to be done about whether there are any alternatives to that process of debt calculation? I know it has been done in the past, but this issue never goes away. I would imagine it is more of a FaCS issue as a policy process. I know there has been research done in the past about the percentage of debt and how it has been incurred, but this particular issue of casual employment and stimulus payments just never goes away.

Ms Hogg—I think it is probably a FaCS issue in terms of how we treat income, but one of the things that we can do, if the employment is in any sense regular, is change the payday. We did not have the flexibility for a long time to change the fortnightly process, but now we can. So, if somebody tells us that they work from Wednesday to Thursday or that is how their pay works, we can change our payday fortnight to match that and minimise the risk for the customer that the

pay that they declare is for a different period. If that is happening, we can work with them to make it as easy as possible for them to declare, but it is still—

CHAIR—Do you put that in the fortnightly notice that you send to people?

Ms Hogg—A conversation we have with them when they first come into the system is that there is a process by which they can elect to have the fortnight ending on a certain day of the week.

CHAIR—How often do you inform them of that opportunity?

Ms Hogg—I am not sure. I would have to take that on notice.

CHAIR—Please take it on notice.

Senator MOORE—It is a key thing.

Dr Hartland—This is an issue that has been in the system for some time. As a result of the AAO changes, I think it is really more a DEWR question than a FaCS question.

Senator MOORE—As I asked question I knew you were going to say that!

Dr Hartland—And you saw my eyes roll!

Senator MOORE—I could see that excitement.

CHAIR—To clarify that, you advise the person when they first come in to make an application. At that time they obviously have a fair bit going on in their mind. For many it is a new experience. They may overlook minor things like the fact that you can change the entitlement period. So I think it would be fairly important, once they have settled down a bit in particular or, indeed, the first time they say that they have received a bit of work and generated some income, to let them know again right there and then that they can change the pay period to better fit in. I have seen people coming in where one week they have money and the next week they have no money because the non-payment period has carried through into the next week. So one week they are rich and the next week they are poor, and it is more because of cyclic factors than the actual payment, because if you take the payment over the period of the whole year you get a whole different story.

Ms Hogg—With couples where both people are in receipt of payments, we certainly advise them to have it fortnight about, so that they have income coming into the family each week. And we certainly do talk to customers about avoiding Mondays and Fridays because they are potentially when public holidays occur and that affects our system's processes. Particularly with people that are working, we hold an information seminar before the first payment which runs through a general set of issues around compliance and those sorts of things. So we can certainly make sure that we re-stress that to people to help avoid that fortnightly issue of the mismatch of dates they get paid on.

Senator MOORE—I have a general point to make. When I read this audit report it seemed as though debt recovery had only just become important—that the concern about recovery of debts and also the prevention of debts was something new. We all know that is not true and that it has always been a key component of Centrelink and, previously, the Department of Social Security. The interesting thing is that the ANAO report consistently said that Centrelink did not have information or research about the kinds of debts or where the debts were created. There were a number of statements in the report about Centrelink not having this information. FaCS, DEWR and DEST have always had a priority for ensuring that people get the correct payments and have always had a key initiative to make sure people only get paid the right amount, and for many years have had clear structural processes with people who are specialists in that area. Why, then, was the kind of statistical and profile information referred to in the ANAO report not available, and what has caused the fact that we have to re-educate, re-emphasise and re-prioritise? I know that is a broad question, but it just leaps out for me.

Mr Cowan—There is a general answer, firstly. In any area of operation it is important to revisit it on a regular basis, and there were a number of things that made that an appropriate thing to do over the last couple of years. With respect to the amount of research that was available, our colleagues from ANAO may have a different view but I do not think their statements were quite that blunt about the amount of research. They said that we had not done enough. We had done our internal analysis and some customer analysis, but not as much as we would have liked, perhaps, or they would have liked.

We have done quite a bit of work internally on causes of debts—reasons for and profiling—and we are factoring that into a number of areas of operation, including program specific debt prevention activities, such as in the age pension area, or initiatives with the prisons, where we have identified a major problem, and also with electronic employer reporting with business services. As well as that, we could factor it into discussions on proposed initiatives, so when things are in their formative stages we can actually apply our learning and come up with scenarios as to what the debt impact of such initiatives could be. So a lot has been done in one large lump of work and there are also smaller pieces of work going on.

The area where we are really looking to provide more insights is customer research by way of survey which I was describing earlier. That will result in a substantive increase in the intelligence we have on customer attitudes and customer behaviour. That being said, it is not the first time that sort of research has been done. Research was done by FaCS, I think, in 2000 or 2001.

Dr Hartland—I think we would point to three areas where our research knowledge is improving, but the question still remains: can we do more? I guess the answer, in the end, is always going to be yes. We made an investment in the random sample surveys, which Centrelink conduct for FaCS and now for the other two policy departments. Those results are starting to build quite a substantial database on debts. In relation to debts and rate variations, FaCS has been doing some research on the profiles of customers. I guess we have not done as much yet as we would perhaps ideally like to have done, because they have only just started to build to a database of an adequate size to look at some small groups.

Around the media campaigns we are conducting there has also been research around customer awareness and, to a degree, motivation. We are starting to get a bit of a better sense about the

different sorts of motivational types in our customer population, but it is hard to connect that. I think the challenge will be connecting that to estimates of sizes, because this is mostly qualitative research. The introduction of service profiling has involved us doing some research around what risk characteristics customers have and how that relates to debts. So there is what I would call a building body of research. Can you do more? Well, yes. For all of that, having done the research and understood a bit about what it is telling you about different customer groups, the biggest challenge is to say, 'What does that now mean for the person who comes to the Centrelink counter?' Having researched and found that we have these pockets of people who are likely to have debts, that does not necessarily mean that you can say, 'Oh, well, the third person in the queue is one of those we should be talking to.' That is a hard leap.

Senator MOORE—Yes—and has its own dangers.

Mr Cowan—Yes, precisely. You would not want to go out with a very simple view about who you should be pulling aside and spending more time with—that is right.

Senator MOORE—I have a question about the staffing aspect of the process. I think I now have my head around the new structure with the areas in certain places. There is also a reinforcement of training and you have mentioned the training packages. But it certainly was my view, from visiting Centrelink areas, that there were people there with immense corporate knowledge. If you go into an area office now I do not know that you will find people who have been doing this kind of work for many years, but I think there are people out there who have worked in this particular area for too many years than I would like to remember. I am thinking about the balancing of that degree of knowledge, when you have so many people who are specialists in the area, and an assessment that says there needs to be a lot more training. How do you balance that?

Mr Whalan—Staff in area offices have a huge amount of knowledge and expertise. One of the difficulties with 15 area offices is that often you have 15 different knowledge and expertise bases—

Senator MOORE—Very strongly different.

Mr Whalan—with 15 different views about the best way to do something. You have got to be careful sometimes about saying there is only one perfect way; things are often different in terms of the demography and the circumstances of different parts of Australia. However, part of the quest here has been to get a more consistent approach. The first comment I would make is that—I have no doubt with some pain—we have chosen five areas where we are now concentrating our expertise. We are working with those five different areas to agree on a more consistent approach. They would be my lead-in comments. You might like to add something, Paul.

Mr Cowan—You were talking, Senator, about the high level of expertise in those areas. There was a lot of stability in that aspect of our operation around the country in the various areas which in a way perhaps led to the problem of a lack of training. There was a very low turnover of staff. A lot of people were assumed to be of a high level of competency, and many were. But it was also an area where we needed to revisit what we did in that aspect of our operation, in the light of feedback from various sources, so it was a timely initiative to actually revisit the whole training. The training was not just technical; it was also customer service training, which had not

been a major focus for the training in that area previously. It was a broader training base than we would have had previously and it addressed a number of customer issues as well as the technical issues.

CHAIR—I would like to go to the area of overpayments. What percentage of your debts raised would come as a result of tip-offs provided to the National Tip-off Processing Team?

Mr Cowan—I actually do not know.

CHAIR—Can you provide that to us on notice.

Mr Cowan—Yes.

CHAIR—While you may not know the percentage off the top of your head—

Dr Hartland—The number of tip-offs would be small, perhaps 100,000 a year. It would not be huge. If that was the type of information that you were looking for, the answer would be a small percentage.

CHAIR—100,000?

Dr Hartland—That would be the number of tip-offs processed. The number of debts resulting from it may well be smaller than that.

CHAIR—Do you think it is an effective strategy in identifying abusers of the system?

Dr Hartland—Yes, it is a very effective strategy, in part because it is a strategy that gives you an insight into people who are not going to be caught by your data-matching. It is an extremely valuable component of what Centrelink do.

Senator MOORE—I did not think Centrelink could operate without them.

Mr Whalan—This is as valuable as a deterrent as it is as an initiative by itself.

CHAIR—What percentage of your clients—I can only assume that it would be very small; perhaps you could quantify it—deliberately go out their way to defraud the Commonwealth of money through Centrelink overpayments?

Mr Whalan—It is a small percentage.

Mr Cowan—It is very small. Fraudulent activity is a difficult thing to define, but if you define it in this context as those debts that relate to successful prosecutions for fraud then it is about \$30 million or \$40 million a year. It is a relatively small amount of money and only several thousand—

CHAIR—There is also that category of people whose circumstances change throughout the year who cannot afford to be without the supplement to live but whose benefits are wound back

because they have gone back into the work force. Whilst that is still taking money they are not entitled to, it puts a different connotation on their pursuing payments that are higher than they are entitled to.

Mr Whalan—And then there is another category who make an economically wise decision about the value of a low-interest loan.

CHAIR—Years ago, if you were underpaid you would get a lump sum at the end of the year to top up your payment. I think that would have resolved a lot of that issue and the problem for those who thought they had better overclaim in case they missed out on something at the end of the year. After the government decided to waive the \$1,000 debt for some people, we were all inundated with calls: ‘I wish I had overclaimed because I have missed out on \$1,000.’ It is hard to argue that with some people. But do you think the ability to be paid if there is a shortfall payment to you, because you have overstated rather understated any income you might have, has been very successful in reducing the amount of debt or the incidence of debt?

Mr Whalan—I am careful not to stray outside the scope of this audit. It sounds like we might be straying into the family payments area.

CHAIR—I accept that—but I will ask you the question next time it comes up.

Senator HOGG—I apologise that I had to step out for a few moments to deal with another matter. Has anyone pursued the cost of recovery?

CHAIR—No.

Senator HOGG—I want to take up something I have raised with others, and that is: do you have a figure on the cost of debt recovery?

Mr Cowan—I do not have it with me but we could certainly quantify the cost of running our debt recovery operation.

Mr Whalan—We have certainly done some work on the cost-benefit of recovery in relation to small debts. If you look at the profile of debts, there are—not surprisingly—a much larger number of small debts.

Senator HOGG—That is what I was coming to. What is the cost of recovering a debt? Do you have a ballpark figure at all that you can give us?

Mr Whalan—I will check. I do not have one.

Mr Cowan—I do not have a dollar figure. We cost the whole life of a debt. We cannot recover a debt unless we have raised a debt, so the life of a debt is from the point of identification through to recovery.

Senator HOGG—I accept that.

Mr Cowan—We cost that at a ballpark figure of 150 minutes of a CSO’s activity on average.

CHAIR—That cost would be?

Mr Cowan—I will have to take that on notice. I am sorry, I do not have that figure.

Senator HOGG—So that is 2½ hours. Is that the correct way to look at it—2½ hours?

Ms Hogg—Let us put it this way: at the moment, we do not take any action on a debt that we identify that is below \$50. We are currently doing some work to look at the cost effectiveness of raising debts between \$50 and \$100. We are talking to our purchasing agencies about revisiting the \$50 waiver limit at the moment, because it has not been looked at for several years, and we think that it is obviously going to be somewhere between \$50 and \$100 at this stage.

Senator HOGG—There must be a point at which it becomes uneconomic for you even to raise the debt, I would imagine. Is that right?

Ms Hogg—It is \$50 at the moment, but we are looking between \$50 and \$100 because we think it will be somewhere in that vicinity.

Mr Whalan—I would add the point that, if I were in a policy department trying to make a judgment on that, I would want to take account, first of all, of the cost-benefit and, second, of the behavioural effect. I may not just operate purely on the cost-benefit.

Senator HOGG—I accept that. It is just that this morning we had a briefing from the ANAO, and figure 2.1 in their report shows a debt level of \$800 million in July 2000, being fairly static until January 2002 and then in more recent times going up to nearly \$1 billion.

Mr Whalan—We did talk a bit earlier about the reason for that 20 per cent increase.

Senator HOGG—I was not interested so much in the increase. What I was interested in is whether any of those debts that we have just discussed are included in that figure there.

Mr Whalan—Yes.

Senator HOGG—They are?

Mr Whalan—In the sense that we are doing some work—although it will not be our responsibility at the end of the day—about the cost benefit of debts between the figure of \$50 and \$100, and any debt between \$50 and \$100 would be included in those figures.

Senator HOGG—What about debts between \$0 and \$50? Would they be included? Pardon me for holding up the graph, but I am sure you are familiar with it.

Mr Cowan—They are not included in that. Customs are not even notified of them. They are calculated, raised and waived automatically, and there is no advice to the customers or anything.

Dr Hartland—That is the debt that is owed. Debts less than \$50 are not owed.

Senator HOGG—Do you have any idea of what proportion of those debts would fall within that?

Mr Cowan—It is a small amount of money. To put it in context, we waived 40 per cent of all the debts we raised because they were less than \$50. Fifty per cent of the debts we raise are less than \$100, so we are talking about 10 per cent of the debts we raise. The actual dollar value would be less than \$10 million.

CHAIR—They are small debts. So you have a few people with awfully large debts.

Mr Cowan—Eighty per cent of the debts we raise are less than \$500, so we are saying that the vast bulk of debts we raise are less than \$500.

CHAIR—That means that 20 per cent of the people who owe you money owe you a considerable amount of money.

Mr Cowan—That is right. There are two different aspects of the operation that we have been talking about. One is the day-to-day contact with customers that allows us to identify debts early, and they are small—there is a direct correlation between age and size. We were talking about the effectiveness of our compliance regime and monitoring and following up tip-offs and improving it. That tends to identify bigger, older debts. There are two different types.

Senator HOGG—I will try to characterise that 20 per cent which the chairman has just referred to. Do those debts, more than likely, include some element of fraud?

Dr Hartland—Some of them would. I think there is a grey area between someone who is deliberately out to defraud us and someone who is perhaps recklessly indifferent, if you like, to their notification obligations. I think this is a question about motivation that we would want to know more about before giving you a precise figure. But, yes, some of them would be the result of fraud and some of them would be people who are aware of their notification obligations and the gain in this but might not be criminal. Some of them are people who simply do not understand.

Senator HOGG—The reason I ask is that it therefore brings into play any prevention strategy that you put in place. Surely the 20 per cent—and I do not know what the average figure would be but it would have to be—

CHAIR—It is about \$611 per person and 600,000 people.

Senator HOGG—If we have that, it seems to me that something has gone wrong with the prevention strategies, in those cases, if they have been allowed to get so much into debt. Is that a reasonable assumption?

Dr Hartland—This is a bit of a hypothetical discussion, I think, to some degree. But, no, you might find that, if our prevention strategies are about informing people of their notification, and your problem with large debts is that people are being indifferent to the messages and not choosing to inform themselves or receive those messages, then we could be doing a good job of prevention but still find that people are not responding to those messages.

Mr Whalan—I do not think we know the answer as to what extent individuals choose not to report or honestly are unaware of their obligation to report. As a minimum, I think there is value in greater information being provided. Dr Hartland talked earlier about the government having decided to invest more in providing information to people who do not regularly have contact with us.

Mr Cowan—There are prevention measures. What we do is to continually review our systems, so we act on information we gather from, say, tip-offs. We do not just act on the individual tip-off that may result in a large debt. We also look to see whether our compliance regime needs enhancement to make sure that we are filling any gaps that we have not had filled previously. So we act on the intelligence we gather to prevent the recurrences of those sorts of things.

Senator HOGG—I gained the impression from the report of the ANAO that there were some major gaps in Centrelink in those areas—knowing what their customers' views are and so on. I think you have now taken steps to address that.

Senator WATSON—What is the amount that a person can earn currently without it affecting a social security entitlement?

Ms Hogg—We will take that one on notice. It varies across different payments.

Mr Whalan—For an age pensioner it varies depending on whether they are single or partnered and whether they own their own home or not. Similarly for family payments it depends very much on their individual circumstances.

Senator WATSON—While you take it on notice, could you give me the figure for a person who is on the Centrelink unemployment benefit at the moment?

Dr Hartland—The government recently made a decision to introduce working credit, which means that for an individual it may change depending on how many credits they have in their bank. In addition to the characteristics Mr Whalan was talking about, it would be hard to give a definitive answer.

Mr Whalan—We will give you an example of an answer in relation to someone on newstart and we will give you the latest copy of the brochure that we send out to customers which allows them to easily find what the cut-off is for their circumstances.

Senator WATSON—I asked if and when it was last reviewed. Somebody has indicated the government has just made a decision on that. I am interested in when the amounts were reviewed, because wages have been going up. A lot of the amounts are under \$100. If a person earns, say, \$100 a day—which most people would, I presume—in terms of casual employment, then all we are really talking about is one day's non-reporting. I am trying to get some idea of relativity. Do you see what I am trying to get at?

Mr Whalan—Yes.

Senator WATSON—I am just trying to work out the cost-effectiveness of the amount of work you go to for the sake of one day's non-reporting.

Dr Hartland—I think we index the thresholds and cut-offs as well. They are not kept constant. The \$50 debt waiver amount has remained constant and not been indexed. But in terms of the allowable earnings, that amount is indexed when payments are indexed.

Senator WATSON—Then why is it that people working in, say, Tasmania sometimes have to report earnings to Townsville, other times have to report it to Dandenong and other times have to report it to somewhere in another state? There does not seem to be any consistency for the people living in the same region.

Mr Whalan—This is an issue for every service delivery organisation, whether it be Telstra, Coles Myer or Centrelink. So, for example, when you ring Centrelink we have 4,000 staff who are connected to the call centre, who are located in centres all around Australia—

Senator WATSON—I am not talking about call centres. I am talking about instructions to employers to report on earnings, where you are given quite a short time in which to report without the person missing out on a benefit. A lot of employers only consolidate their wages once a month to comply with tax requirements, the superannuation guarantee and any other requirements. I find it quite strange that people from the same region have to report to various parts of Australia.

Mr Whalan—Are you talking about reporting to Centrelink?

Senator WATSON—Yes. It has got nothing to do with call centres, because it comes directly from a Centrelink office.

Mr Whalan—As well as consolidating call centre work nationally—

Senator WATSON—I am not talking about call centre work—

Mr Whalan—As well as consolidating call centre work nationally, we consolidate a lot of the processing work nationally. So a moment ago you may have heard us say that we now do debt recovery in five sites across Australia. If you have an employer who is getting advice from Centrelink to deal with a different location, it is because the work has been sent there in respect of the processing. We do not process all work for Tasmania in Tasmania.

Senator WATSON—I do not think you process too much of it, from the examples I have just given you.

Mr Whalan—A complaint we get from the rest of Australia is that we process all the national work in Tasmania.

Senator WATSON—The tax office has one specialised centre here for a particular program, and I can understand that. But that does not seem to be the case with Centrelink, because there seem to be various centres that employers have to report to.

Mr Whalan—I am happy to deal with you outside this meeting if you want to give me some more detail about that, Senator Watson.

Senator WATSON—I look forward to your answer.

Senator MOORE—Mr Cowan, earlier in your responses you talked about the surveys and the creation workshops that you have. I can never get my head around the title for those workshops. The ANAO has requested that we get more information from Centrelink and its customers to find out exactly how they find the service and about the whole process of customer satisfaction. I know it is an ongoing issue for Centrelink. You have already told us that you are using people like welfare rights extensively to give you that extra help. But that line between the discussion with an agency like Centrelink and a person who may or may not have incurred a debt and the issue of how they can begin to feel bullied and pursued by the organisation is a very important area. I am interested to know what you are doing to balance the need to talk to people to find out how they are going and their views about being pursued. The situation that we quite often find at our offices is that people have become so fearful of the process that they are getting themselves into more trouble. They hide from the issue. I am interested in how you are balancing that in the ongoing work that you are doing in this area.

Mr Cowan—This is an issue that we are sensitive to and we are getting information indirectly from a number of sources. Our two pieces of customer impact research will focus on that. We already have some indications that our letters and forms are not clear enough in providing people not just with information directly but also with the avenues open to them to discuss things, to get clarification, to appeal and those sorts of things. So we are sensitive to that.

The issue you talked about as to how we deal with customers is certainly a major focus of our training and our ongoing operations and monitoring in the debt recovery area. People come in contact with the organisation in those stressful environments more often than not. They do have an opportunity to talk to the original decision maker and talk about the debt, but normally the point where the anxieties are created is at the debt recovery interaction. That has been a major focus of our work. We are getting positive feedback. We will continue to monitor that area and to work hard on it. But we are getting feedback from welfare rights already that their interactions with customers indicate that things have improved significantly. They are not getting anywhere near the number of complaints that they were getting, and the feedback they are getting is more positive. So we are progressing in the right direction.

We are looking at it in the value creation workshops, because it is an area of great sensitivity when dealing with people. It is never pleasant to get notice of a debt, whatever the size. The size of the debt really is relevant only to the individual. There is no arbitrariness about it. A small debt can cause a great deal of stress to a person, as can a large one.

Mr Whalan—I also note that the ANAO recently did a specific audit in this area. It identified a number of issues that we agree need to be addressed, and we are underway on that.

Ms Hogg—In a more sophisticated area, we are doing some work on the effect of emotions on a customer's reactions to our interaction with them. We have been given some specific feedback from customers in relation to debts and some of the surprise and confusion they feel when they get their letters or when we contact them about debts. They tell us that these negative emotions

have an impact on their ability to comply. Most of them basically say that they do understand the rules and regulations but the emotion of the whole thing really does impact on the way that they will react from then on. This is a whole learning area for our staff and for us in terms of how we deal with the emotions that the customer will feel as a result of this and how that will impact—how they behave in terms of a compliance or a debt situation. It is very early days for us in understanding this sort of approach with our customers, but we are trying to find the information so that we can improve our customer service strategies.

Senator MOORE—That is really interesting and very positive. Are social workers involved in the debt recovery units—can they be involved?

Ms Hogg—Yes.

Senator WATSON—Where a person has disclosed all movements in terms of income receipts et cetera and that has not been cross-matched by Centrelink, what is the time period in terms of that debt—how long can it go on for in terms of recovery?

Dr Hartland—I do not believe it is limited. If we did a data match and found that we had been paying someone an incorrect entitlement for 10 years, we would look back to see when that entitlement became incorrect and would follow the debt through to the start.

Senator WATSON—So you could go back 11 years?

Dr Hartland—Yes, we can go back a considerable period. That is one of the reasons why, as mentioned when we were having discussions about there being some large debts in the system, we occasionally raise large debts.

CHAIR—I thought that if a debt was older than six years you waived it?

Senator WATSON—He said indefinitely.

Dr Hartland—I do not believe that is the case. If we have raised a debt but have not moved to recover it, then there is a limitation. But if we have not raised it and the entitlement is incorrect, we will go back. The limitation on recovery is about not holding a debt over someone's head without us doing anything about it. If we have it on our books but do not do anything about it, then the debt is waived.

CHAIR—If a person has given you information requested by you that they thought was correct and was accepted by you as correct and the debt was a problem of your department, then that debt is waived—is that correct?

Dr Hartland—If the debt is solely due to administrative error, yes, it is waived. But the way that that legislative provision is drafted is fairly restrictive. It is not a provision that is widely applicable to many debts.

Senator WATSON—There are a number of circumstances here. If Centrelink has made an error and written and told somebody, then you say, 'That debt is waived'. Is that right?

Mr Cowan—If a debt results through an error of Centrelink and the person has been receiving funds in due faith, we waive the debt, yes.

Senator WATSON—You waive the debt?

Mr Cowan—Yes, we waive the debt due to administrative error.

Senator WATSON—However, if a person has made a full and true disclosure of all their movements et cetera and for some reason you have not cross-matched it properly—

Mr Whalan—From what I understand where you are going, it is not a full and true disclosure.

Senator WATSON—Yes, it is. So far as the person is concerned, they have provided all the information as required. There has not been a proper matching and as a result of that situation there can be debts of 10 years or so. Wasn't that the circumstance the audit office raised this morning? You were not listening.

Mr Whalan—Let us use a specific example.

Senator WATSON—Wasn't that the circumstance raised this morning: the situation where a person has filled in the forms and provided the information and there has not been a proper matching by Centrelink?

Ms Holbert—Our understanding of the legislation was that Centrelink ought to have been able to identify the occasion leading to a debt being incurred but they cannot go back any further than six years. That was our reading of the legislation, but Centrelink are the experts on that.

Mr Meert—I think you would go in and say that today it would be different.

Senator WATSON—There is a difference here today.

CHAIR—You could put a submission in writing explaining exactly how the situation works. We have had some conflicting advice from the ANAO. We have had your side of the story and I would prefer to have it as a written submission for the committee.

Dr Hartland—This would be covering the operation of the legislation in relation to debt waivers and what we say is the six-year limit on recovery—

Senator WATSON—The issue is more than six years. That is once the debt is raised.

Dr Hartland—Yes.

Senator WATSON—We also have situations where the debt is not raised beyond six years.

Ms Holbert—The situation I was describing was where the debt was not raised. Then there are the write-off provisions where it can be irrecoverable at law because it has not been raised

within six years of an officer becoming aware of the chance that the debt had occurred. If a debt is raised, it is not clear to me what the situation is.

Senator WATSON—We need clarification.

Senator HOGG—Mr Whalan, in your opening statement this afternoon you invited us to make inquiry about the internal audits that are underway. Can you elaborate on that? It seems to me that unless there is a rigorous internal audit system in place then most of what you do gets away from you anyway.

Mr Cowan—Two internal audits are underway. One is with respect to the quality of debt raising in our compliance teams in response to one of the recommendations—the number of which I have forgotten. The other one is to do with the use of debt waivers in the network. Those two are underway, both looking to deliver findings by 30 June.

Senator HOGG—Who comprises the audit team?

Mr Cowan—That would be at the discretion of our senior auditor.

Senator HOGG—They are your own internal auditors? It is not the ANAO.

Mr Whalan—Correct.

Senator HOGG—Are they employed on staff?

Mr Whalan—Yes, they are. The majority of work is done by internal auditors who are employed on staff by Centrelink.

Senator HOGG—Those audit reports go where?

Mr Whalan—They go both to management of Centrelink and to the board of Centrelink.

Senator HOGG—Are any of those public documents?

Mr Whalan—To my knowledge they are public documents.

Mr Cowan—I do not know the general answer to that question.

Senator HOGG—Do any of them find their way to the ANAO to assist the ANAO in their assessment of the progress being made?

Mr Whalan—Yes, and I will allow the ANAO to supplement this. The audit committee of Centrelink has the ANAO attending. At each audit committee meeting we table all the internal audit reports and progress on resolving the issues that arise in internal audit reports so that they are fully aware of what is happening in terms of internal audit.

Senator HOGG—Pardon my ignorance in this area, but how long have internal audits been a feature of what you are doing in the areas you are now into?

Mr Whalan—At least for the last 30 years.

Senator HOGG—All right. So you have got a fair history.

Mr Meert—We get pretty full access to any internal audits, including their chief internal auditor. So we are across the internal audit reports, plus we have reserves on the internal audit committee. We do not have a problem with that. We take it into account when we develop our audit programs. We try not to duplicate it; but then, on the other hand, we may well review it just to see how well the internal audit is going.

CHAIR—On behalf of the committee I would like to thank all the witnesses who have given evidence at the public hearing today.

Resolved (on motion by **Senator Watson**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 3.15 p.m.