The Hon Chris Bowen MP
Minister for Human Services
Minister for Financial Services, Superannuation and Corporate Law

B10/50
Mr Russell Chafer
Committee Secretary
Joint Committee of Public Accounts and Audit
Department of the House of Representatives
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Mr Chafer

On Monday 22 June 2009, the Joint Committee of Public Accounts and Audit (the Committee) tabled its Review of the Australian National Audit Office (ANAO) Audit Report, *No 42, 2007-08* 'Management of Customer Debt'.

The Recommendations are:

- Recommendation 11
  That Centrelink conduct a review to determine the cause of its ageing debt base and that it reports its findings back to the Committee within six months of the tabling date of the Committee's report.

- Recommendation 12
  That Centrelink, the Department of Education, Employment and Workplace Relations and the Department of Families, Housing, Community Services and Indigenous Affairs conduct an empirical analysis to determine a cost-effective waiver, and that this figure be reported to the Committee within six months of the tabling of the Committee's report.

The attached response is submitted for the Committee's consideration. If you have any concerns relating to the content of the response, please contact Ms Rhonda Morris on (02) 6155 1101 or email rhonda.morris@centrelink.gov.au.

Yours sincerely

CHRIS BOWEN

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

RESPONSE TO RECOMMENDATIONS IN JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT

No. 414 - (Chapter 5)

Review of Auditor-General's Reports tabled between August 2007 and August 2008

DATE TABLED: 22 June 2009

DATE REQUIRED: 18 February 2010 (extension granted)

Background

A public hearing was held by the Joint Committee of Public Accounts and Audit (the Committee) on 12 November 2008 to review the Australian National Audit Office (ANAO) Audit Report *No.42, 2007-08* – Management of Customer Debt – Follow-up Audit.

The Committee's report was tabled in Parliament on 22 June 2009, with a request for responses to Recommendation 11 and 12 to be provided within six months of the tabling date.

The Committee noted there had been excellent progress made in the management of customer debt and was pleased the ANAO recommendations from two previous audits on the issue had been addressed. Notwithstanding, the Committee identified that further improvement was required.

Recommendation 11 required that: ***Centrelink conduct a review to determine the cause of its ageing debt base and that it reports its findings back to the Committee within six months of the tabling date of the Committee's report.***

The response to Recommendation 11 is provided in Attachment A:

1. The Debt Base (context)

2. Ageing of the Debt Base (analysis and the reasons why the debt base continues to age).

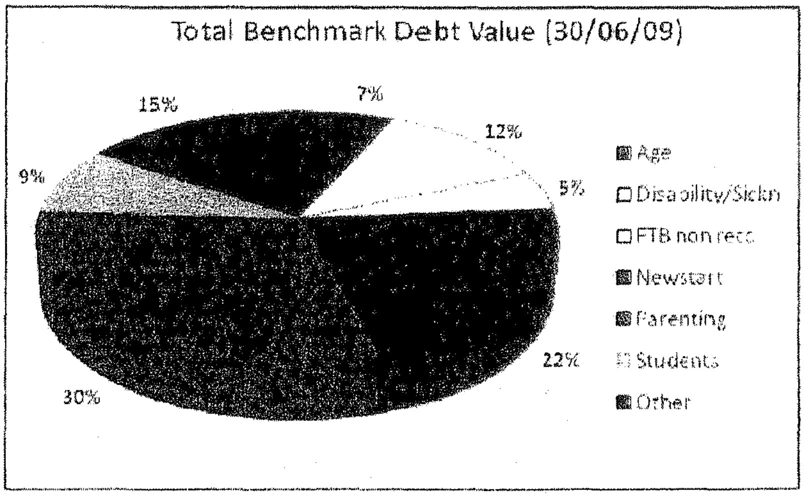
Recommendation 12 required that ***Centrelink, Department of Education, Employment and Workplace Relations and the Department of Families, Housing, Community Services and Indigenous Affairs conduct an empirical analysis to determine a cost-effective waiver, and that this figure be reported to the Committee within six months of the tabling of the Committee's report.***

The response to Recommendation 12, provided to the Committee by the Department of Families, Housing, Community Services and Indigenous Affairs and the Department of Education, Employment and Workplace Relations, is "the Departments analyse the debt data on an ongoing basis and provide advice to government as appropriate".

Centrelink supports the above response and in conjunction with the Department of Human Services proposes to provide advice to government on this matter through the 2011-12 Compliance Plan.

1. The Debt Base

As at 30 June 2009, Centrelink's benchmark[1] debt base was $1.667 billion. The break up of the debt, by major payment type, is as follows:



Previous ANAO reports have excluded Family Assistance Office (FAO) debt from total debt because it is a timing difference that artificially inflates the debt base. This is due to a large proportion of FAO debts raised, being 'recovered' at the time the FAO reconciliation is completed, on lodgement of the customer's tax return.

As at 30 June 2009, $1.174 billion or 70 per cent of the benchmark debt base was under a recovery arrangement. Of the remaining value of the debt base, $243 million was not under recovery and a further $157 million was temporarily written off.

[1] Benchmark debt figures exclude Family Assistance Office reconciliation debt

2. Ageing of the Debt Base

Centrelink analysis has identified three factors that contribute to the ageing of the debt base. The three factors are:

(a) rate of withholding
(b) debt not under recovery arrangement, and
(c) debt having been temporarily written off.

(a) Rate of withholding

While the majority of debt for current customers is under recovery arrangement, debts are being deducted from customer benefits at a reduced rate for many, to avoid putting customers into additional financial hardship. The withholding rate of 14 per cent (excluding FAO) increased to 15 per cent from 1 January 2010. However, 63 per cent of customers actually make debt repayments at less than the standard withholding rate, therefore extending the time taken to repay the debt.

As at 30 June 2009, withholdings represented approximately 84 per cent of repayment options[2] in place, or $983 million of $1.174 billion.

(b) $243 million of the benchmark debt base not under recovery arrangement

As at 30 June 2009, $243 million of the benchmark debt base was without recovery arrangement. Approximately 46 per cent, or $111.8 million of this category was aged greater than two years, impacting significantly on the ageing of the debt base.

Debt not under recovery is primarily owed by ex-Centrelink customers. That is, former customers who do not receive a current benefit payment and who are not currently receiving FTB. Centrelink's options for pursuing these debts are limited. These debts are initially referred to a Mercantile Agent for recovery, but where recovery action was unsuccessful, they are returned to Centrelink and categorised as 'under no arrangement'. Centrelink uses other debt recovery methods such as litigation, letters of demand or garnishee of tax or wages with variable success.

(c) $157 million of the benchmark debt base having been temporarily written off

As at 30 June 2009, $157 million[3] of the benchmark debt base had been temporarily written off. Approximately 71 per cent, or $110.6 million, of this category was aged greater than two years. This also impacts on the ageing of the debt base as recovery action cannot be commenced (or recommenced) until Centrelink is able to reassess the customer's ability to repay their debt(s) or is able to locate the ex-Centrelink customer.

[2] Customers and ex-Centrelink customers have other payment options available such as voluntary deduction, paying regular cash, or by garnishee order.
[3] As at 31 December 2009 'Temporary Written Off' for benchmark debt had decreased to $101.6 million. This was due to the re-commencement of recovery action for affected customers from the Victorian Bushfires and NSW Floods.

The three primary reasons for temporary write-off are:

- 'short term severe financial hardship'
- 'not cost effective' to recover the debt, and
- 'customer whereabouts unknown'.

While short term severe financial hardship is an issue that Centrelink can manage through direct contact with customers, 'not cost effective to recover' and 'whereabouts unknown' are two reasons that are more difficult and costly to pursue.

In contrast with a debt waiver, the writing off of a debt does not extinguish it. The debt remains enforceable but a decision is made not to pursue it at that time.

In summary, the debt base is continuing to age because:

- while the majority of debt for current customers is under recovery arrangement, to avoid putting them into financial hardship, around 63 per cent of this debt is recovered at a rate less than the standard rate of 15 per cent, and
- the majority of existing debt, not under recovery and debt temporarily written off, is greater than two years old. This makes it difficult to pursue and offers little likelihood to recover.