

Audit Report No. 42 2007-2008

Management of Customer Debt – Follow-up Audit

Background

- 5.1 Centrelink is the Commonwealth's primary payment agency responsible for the distribution of social security benefits. When an incorrect payment is made by Centrelink, which results in a customer receiving a greater benefit than entitled, the customer may incur a debt to the Commonwealth. It is Centrelink's responsibility to recover these debts in an efficient and timely manner.
- 5.2 Customer debt primarily arises due to customers failing to notify Centrelink of changes in circumstances or providing inaccurate or incorrect information to Centrelink. When debt arises as a result of an error on the part of Centrelink, and the customer could not reasonably be expected to know they were being overpaid, the debt can be waived.¹

¹ The application of a waiver is dependent on the debt meeting the requirements of the *Social Security Act 1991* (Cth) (ss1237A(1); 1237A(2); 1237AAA(1); 1237AAC; or 1237AAD).

- 5.3 As the social security system is reliant on customers accurately reporting changes to their details in a timely manner a level of customer debt will always exist. The value of the debt base has been steadily increasing from \$967 million in 2003 to approximately \$1.3 billion at 30 June 2007, with the debt base numbering approximately 650,000 customers.
- 5.4 In August 2004, the Australian National Audit Office (ANAO) finalised Audit Report No. 4 2004-05 *Management of Customer Debt*, a performance audit examining Centrelink's administration of its customer debt base. The audit noted that while Centrelink had improved the effectiveness of its debt management processes, the debt base continued to grow rapidly. Further, many inconsistencies across the debt management processes were found, particularly in relation to prevention and recovery.
- 5.5 The ANAO made nine recommendations, which were all agreed to by Centrelink and its purchaser departments. Following the audit, the Joint Committee of Public Accounts and Audit conducted an inquiry and made a further six recommendations. Centrelink responded to the Committee's inquiry in August 2006 noting they had implemented or were in the process of implementing all six recommendations with the exception of Recommendation No. 22, which related to the value of the automatic debt waiver. Centrelink indicated that it was the responsibility of its purchaser departments to determine the value of the automatic debt waiver.

The Audit

Audit objectives

- The objective of the follow-up audit was to examine Centrelink's process in implementing the recommendations of the 2004-05 audit and the subsequent JCPAA inquiry. The audit took into account the changes made to the Commonwealth's welfare program structure since the previous audit, and examined Centrelink's debt management arrangements with its main purchaser departments: the Department of Families, Community Services and Indigenous Affairs (FaCSIA), the Department of Employment and Workplace Relations (DEWR), and the Department of Education, Science and Training (DEST).

Audit conclusion

5.6 The audit report made the following conclusion:

The ANAO found that Centrelink and its purchaser departments had either fully or partially implemented all of the recommendations of the previous audit and JCPAA inquiry, with the exception of JCPAA Recommendation No. 22, which recommended that the debt waiver amount be raised from \$50 to \$100.

In implementing the recommendations of the previous audit and JCPAA inquiry, Centrelink had undertaken a significant ongoing restructure of its debt management operations that had improved consistency, efficiency and performance measurement. This had allowed Centrelink to meet the performance requirements of its purchaser departments. However, the ANAO still found notable inconsistencies across the Centrelink network, particularly in its allocation of resources to debt prevention; its application of debt waivers; and its approach to recovering debts.

Despite the identified improvements to debt management administration, the ANAO also found that the value of the debt base and its associated characteristics (including the number of debtors and the age profile of the debt base), had continued to increase. The ANAO notes that this is occurring at a time when the level of consumer debt in Australia is rising. Between 1 July 2003 and 31 December 2007, nominal household debt levels within Australia increased from 126.4 per cent to 160.4 per cent of disposable income.²

In these circumstances it is particularly important that Centrelink and its purchaser departments focus on gaining a better understanding of the factors driving the changes in the debt base. Undertaking an analysis of the debt base would usefully inform the framing of a nationally integrated program based approach to debt management. Such a framework would allow the implementation of more effective measures to prevent the circumstances that result in a customer incurring a debt and, in the longer term, slow the growth in the value of the debt base.

² Reserve Bank of Australia <<http://www.rba.gov.au/statistics/bulletin/B21HIST.XLS>>

ANAO recommendations

5.7 The ANAO made the following recommendations:

Table 1.1 ANAO recommendations, Audit Report no. 42, 2007-2008

1.	<p>The ANAO recommends that Centrelink and its purchaser departments undertake an analysis to determine the underlying drivers of the value and profile of the debt base with specific reference to the continuing:</p> <ul style="list-style-type: none"> • increase the value of the debt base; • increase in the number of customers experiencing debt; and • ageing of the debt base. <p><i>Centrelink's response: Agreed.</i> <i>Department of Families, Housing, Community Services and Indigenous Affairs' response: Agreed.</i> <i>Department of Education, Employment and Workplace Relations' response: Agreed.</i></p>
2.	<p>The ANAO recommends that Centrelink review the existing governance arrangements and operation of the Early Intervention Activity Database (EIAD) to identify and implement improvements to the integrity and usefulness of the data produced and relied upon to support debt prevention strategy decision making.</p> <p><i>Centrelink's response: Agreed.</i></p>

The Committee's review

5.8 The Committee held a public hearing on Wednesday 12 November 2008, with the following witnesses:

- Australian National Audit Office (ANAO);
- Centrelink;
- Department of Education, Employment and Workplace Relations (DEEWR); and
- Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA).

5.9 The Committee took evidence on the following issues:

- actions taken since the initial audit;
- the debt base;
 - ⇒ the size of the debt base;
 - ⇒ the age of the debt base;
 - ⇒ debt write offs and waivers;
- cost effectiveness of debt recovery; and
- debt prevention;
 - ⇒ aged pension debts.

Actions taken since the initial audit

- 5.10 As the audit conducted by the ANAO was a follow up on an audit previously tabled in August 2004, Centrelink updated the Committee on actions taken since the initial audit and subsequent committee inquiry.
- 5.11 The Committee was informed that Centrelink had established a business integrity network with more than 3,000 staff working under the same hierarchy, rather than the previous system in which debt recovery work was undertaken in 15 different areas under 15 different management structures.³
- 5.12 The Committee noted that inconsistencies had been visible across the Centrelink network, particularly with relation to resource allocation, the application of debt waivers, and approaches to recovering debts in the past. Centrelink replied that consistency was a constant challenge due to the size of its network, but that a national training package had been developed alongside the new management structure to further drive consistency.⁴
- 5.13 Centrelink noted:
- Specifically in response to the audit recommendations, we ran several of what we call value creation workshops, where we get groups of customers together and ask them about their experience in relation to particular areas of our business. We ran a series of value creation workshops in relation to debt and used that information to inform the processes, communications with customers...⁵
- 5.14 Centrelink was asked if processes or practice had changed as a result of these workshops, and replied that they had changed some communications material, increased access to staff who were experts on debt, and that they had developed a dedicated telephone number to call to talk about debt.⁶
- 5.15 The Committee asked whether it was possible for Centrelink to identify regions where efforts to recover debt were more or less successful. Centrelink noted there were two reasons for the

3 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 2.

4 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 3.

5 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 11.

6 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 11.

accumulation of debt – instances where the customer makes a mistake, and instances where Centrelink is in error. Centrelink noted they were able to address regional performance in instances where Centrelink was in error.⁷

- 5.16 In addressing whether Centrelink was able to identify areas of best practice, they replied that they were always looking for “pockets of best practice”.⁸
- 5.17 The Committee is encouraged that Centrelink is looking for best practice, but is of the opinion that more work needs to be done to identify instances of best practice and to implement best practice across its entire network.

Recommendation 10

That Centrelink obtain a regional breakdown of debt recovery successes and identify ways to improve debt recovery by examining methods used by the most successful regions. Further, that Centrelink identify regions with low customer debt and identify the ways in which these regions minimise customer debt.

The debt base

The size of the debt base

- 5.18 The Committee expressed its concern at the increasing size of debt, and the widening of the customer debt base, and asked for the total quantum of debt that Centrelink was trying to recover. Centrelink replied that the debt as of 30 September 2008 was \$2.2 billion.⁹

The age of the debt base

- 5.19 The Committee then examined the age of customer debt, expressing concern that almost a quarter of debt was over four years old. Centrelink noted that while that was the case, that the majority of debt was under recovery arrangements with current customers, and

7 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General’s reports, Nos 27 (2007-08) to 2 (2008-09), p. 12.

8 Mr Tidswell, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General’s reports, Nos 27 (2007-08) to 2 (2008-09), p. 12.

9 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General’s reports, Nos 27 (2007-08) to 2 (2008-09), p. 2.

that debts were being deducted from benefits at a small rate to avoid putting customers into additional financial hardship.¹⁰

- 5.20 The audit report noted that Centrelink was unable to provide the ANAO with reasons for the ageing of its debt base¹¹ with the Committee asking the agency to explain why this was the case. Centrelink replied that they had accepted the ANAO's recommendations and had begun to analyse the debt base, but that the relaxed debt recovery regime put into place by Centrelink was one of the reasons for the ageing and expansion of the debt base.¹²
- 5.21 Noting the ageing of the customer debt base, and the slow rate of recovery, the Committee asked Centrelink for an estimate of how much of the debt would eventually have to be written off. Centrelink replied that it was difficult to say, but that 70 per cent of the total value of debt base was under active recovery arrangements.¹³
- 5.22 While the Committee is glad the majority of customer debt is under active recovery arrangements, it remains concerned that the debt base continues to age, and that Centrelink is unaware of concrete reasons why this seems to be the case. It is imperative that Centrelink identify why the debt base continues to age to slow or prevent debt base ageing altogether.

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.

Debt write offs and waivers

- 5.23 The Committee asked about the value of debt waived in a yearly period, and was informed that in the 2007-08 financial year, \$574 million worth of debts were waived, written off or reduced.¹⁴

10 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 6.

11 ANAO Audit Report No. 42 2007-08 *Management of Customer Debt – Follow-Up Audit* p.45.

12 Mr Tidswell, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), pp. 9, 10.

13 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 7.

14 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 5.

- 5.24 The Committee observed that Centrelink had identified that legislation impeded its ability to write off debt. Centrelink noted that it was legislatively obliged to pursue customer debts for six years (unless the debt met certain conditions) before they could write it off as a bad debt.¹⁵
- 5.25 The Committee asked for a breakdown of waiver reasons. The vast majority of waivers (866,899 of a total of 915,455 waivers, or over 95% for the 2007-08 financial year) were because the debt was less than fifty dollars, and was deemed not cost effective to recover. The other major reasons waivers were provided were due to clerical error (32,368 instances), and extreme and unusual circumstances (2,946 instances).¹⁶

Cost effectiveness of debt recovery

- 5.26 The Committee noted that of the recommendations it had made in the first hearing into the issue, all recommendations had been adopted with the exception of Recommendation 22, which dealt with raising the debt waiver amount from \$50 to not more than \$100. The reason for this was that Centrelink believed it was the responsibility of its purchaser departments to determine the debt waiver amounts. During the public hearing, Centrelink restated its position.¹⁷
- 5.27 The Committee noted that DEEWR had analysed its debt waiver in 2006 and had found it was cost effective to collect sums below \$50. DEEWR replied they had done some indicative work and that they had found enough evidence that:
- ...it showed, on the information that was available, \$38 or so was a point and that we might be able to bring that down to 20-something dollars. On that work we are continuing to talk with Centrelink and FaHCSIA so it is a major part of going forward.¹⁸
- 5.28 The Committee members suggested that the agencies and ANAO should be working together to develop a recommendation about what the debt waiver level should be in terms of cost-effectiveness. DEEWR replied that they wanted to work further with Centerlink and

15 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 10.

16 Centrelink, Answers to Questions on Notice, Attachment D.

17 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 21.

18 Ms Golightly, Department of Education, Employment and Workplace Relations (DEEWR). Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 3.

FaHCSIA to ensure a comprehensive empirical analysis to determine the most cost effective level of debt waiver.

- 5.29 The Committee is disappointed that there is still no clear debt waiver figure, and recommends:

Recommendation 12

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 debt waiver, and that this figure be reported to the Committee within six months of the tabling of the Committee's report.

Debt prevention

- 5.30 Centrelink noted the importance of debt prevention, and noted that while the majority of its resources were spent on finding debts once they had occurred, that the focus was now going to move to one of balancing between debt detection and debt prevention.¹⁹
- 5.31 The Committee noted its major concern was that there was no evidence of major concentration on, or clear strategies towards, preventing customer debts arising in the first instance.
- 5.32 Centrelink noted that the primary reason debts were incurred was because customers did not inform it of changes in their personal circumstances.²⁰
- 5.33 The Committee examined one of the areas where debt was the largest, youth payments, and asked for examples of innovations used to prevent youth payment recipients from incurring debts. DEEWR noted that non-declaration or incorrect declaration of earnings was a primary driver of debt for Newstart recipients, along with failing to declare a change in marital status. To address this issue, DEEWR and Centrelink put into place improved processes for verification of earnings, and improved data matching, obtaining data from employment service providers to match with Centrelink's records.²¹

19 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), pp. 5-6.

20 Mr Tidswell, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 9.

21 Ms Golightly, DEEWR. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 15.

- 5.34 Centerlink noted that students were failing to inform it of changes in their study load, often resulting in overpayment. As a result, Centerlink had initiated the rollout of data exchange with academic institutions, which had led to a reduction in customer debts at participating institutions by more than 70 per cent.²²
- 5.35 The Committee expresses its support for these initiatives, and encourages agencies to continue in the same vein to address other drivers of customer debt.
- 5.36 The audit report found that the existing arrangements and operations for Centrelink's early intervention activity database were insufficient. The Committee asked what changes had been made, with Centrelink replying that the ANAO recommendations had been implemented, and the database had been made more robust and reliable. Further, they were currently working with policy departments and the Department of Human Services to agree on how to measure prevention and identify the tools needed to do so.²³
- 5.37 The Committee is pleased to see that data matching has been such a success in preventing the accrual of customer debt across some sectors and encourages agencies to continue to roll out data matching programs to prevent customer debt.

Aged pension debts

- 5.38 The Committee discussed debts incurred by aged pensioners, with FaHCSIA noting that while the aged pension occupied a large proportion of the debt base, that the average size of debts was smaller, and that the primary problem was the declaration of income and earnings, especially amongst part-rate pensioners.²⁴
- 5.39 Centrelink added that the sale of assets, particularly real estate was another driver of aged pension debt, and advised the Committee that they now obtained data from the Australian Valuations Office and some financial institutions such as the Commonwealth Bank to prevent aged pensioners incurring debt.²⁵

22 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 16.

23 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), pp. 19-20.

24 Mr Cassidy, Department of Families, Housing, Community Service and Indigenous Affairs (FaHCSIA). Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 8.

25 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 8.

- 5.40 The Committee noted that 46.5 per cent of aged pension debt was classified as 'very large debt', over \$20,000, expressing concern about how such large amounts of debt were incurred by aged pensioners. FaHCSIA replied that large debts occurred as aged pensioners did not have to have regular contact with Centrelink, and that their marital status may have changed, or that their financial circumstances may have changed due to the sale of assets, primarily real estate.²⁶
- 5.41 The Committee moved on to examine the rate of recovery of aged pension debts, noting the success rate for recovery of aged pension debt was 52.6 per cent. It asked whether success in debt recovery was measured in the terms of the amount of successful claims, or by the amount of money recovered. The ANAO replied that the audit found success was measured by the amount of money recovered.²⁷
- 5.42 Centrelink reiterated the importance of rolling out its prevention mechanisms, such as real estate valuations and financial institution data exchange to prevent the accrual of aged pension debt in the first place, acknowledging they needed to improve at addressing risks, rather than acting after a debt has occurred.²⁸

Conclusion

- 5.43 It is clear to the Committee that there has been some excellent progress made in management of customer debt. It is pleased to see that the agencies have implemented all of the ANAO recommendations of the two reports on the issue, and the majority of the Committee recommendations stemming from its first examination of the issue.
- 5.44 Notwithstanding this, there are still some areas that require improvement. While the centralised management structure for debt recovery is encouraging, Centrelink should do more to determine which regions are performing well, and which regions are performing poorly to ensure an even level of regional performance in debt recovery.
- 5.45 Further, the Committee is disappointed that Centrelink remains unsure why the debt base continues to age. There may be simple or

26 Mr Cassidy, FaHCSIA. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 15.

27 Mr Williamson, ANAO. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 15.

28 Ms Rule, Centrelink. Committee Hansard, Joint Committee of Public Accounts and Audit, Review of Auditor-General's reports, Nos 27 (2007-08) to 2 (2008-09), p. 18.

more complex reasons for this, but determining why this is the case is of importance for the sake of risk management.

- 5.46 Finally, the Committee is unhappy there has been no more progress made on developing a comprehensive debt waiver threshold and urges the relevant agencies to determine one as soon as possible.
- 5.47 The Committee notes the importance of Centrelink being involved in policy implementation and urges more cross-agency collaboration between Centrelink, DEEWR and FaHCSIA.
- 5.48 The Committee is glad to see progress made in the management of customer debt, and is firmly of the belief that the full implementation of its recommendations would continue to improve performance and further reduce the cost of customer debt to the taxpayer.

