

## Audit Report No. 4, 2004-2005

# Management of Customer Debt – Centrelink

## Background

- 7.1 Centrelink is the government agency responsible for delivering a range of government payments to individuals such as retirees, families, carers, parents, people with disabilities, Indigenous people, and people from diverse cultural and linguistic backgrounds. Since October 2004 Centrelink has come under the umbrella of the new Department of Human Services, which aims to 'direct, coordinate and broker improvements to service delivery'.<sup>1</sup>
- 7.2 Debt management forms part of Centrelink's core operations, and has links to programs targeting payment correctness and customer compliance.
- 7.3 Debts arise primarily because customers fail to notify Centrelink of changes in circumstances, or provide incorrect information. Debts can also result from Centrelink's own administrative error. Where a debt arises solely from Centrelink error, and where the customer could not

---

1 Department of Human Services internet site:  
[http://www.humanservices.gov.au/what\\_is\\_DHS.htm](http://www.humanservices.gov.au/what_is_DHS.htm), accessed June 2005.

reasonably be expected to know they were being overpaid, the debt must be waived.

- 7.4 Managing customer debts related to income support and pension payments is a major issue for Centrelink. At 30 June 2003, outstanding 'benchmark' debt was \$967 million, owed by approximately 600,000 individual social security recipients. The magnitude of this debt, and the burden often placed on the financial capacity of affected customers, means that it is important that Centrelink manages debt efficiently and effectively.
- 7.5 The debt management process comprises four main elements – prevention, identification, raising, and recovery.

### Audit objectives

- 7.6 In August 2004 the ANAO tabled its audit report titled *Management of Customer Debt*. The objective of the audit was to assess whether Centrelink effectively managed its benchmark customer debt consistently across its network, ensuring integrity of payments made on behalf of the Department of Family and Community Services (FaCS), while also providing appropriate levels of customer service.

### Overall conclusion

- 7.7 The ANAO concluded that Centrelink had significantly improved the effectiveness of many debt management processes and practices over the previous one to two years. However, the ANAO noted that customer debt continues to increase rapidly, making it important that Centrelink further improve its debt prevention, identification, raising and recovery activities in order to safeguard the Government's expenditure on, and effectiveness of, its social welfare programs.
- 7.8 The ANAO concluded that Centrelink did not manage debt consistently across its network. While Centrelink's debt identification and raising functions generally used similar processes, producing similar results, debt prevention and recovery varied widely in application and performance across the Centrelink Areas examined.
- 7.9 Centrelink was not able to inform the ANAO about the standard of service it provided to customers with debts, as it did not collect information about customer satisfaction with debt servicing activities. This lack of monitoring also made it more difficult for Centrelink to ascertain whether its debt recovery activities placed customers in 'real financial hardship'. As well, it impeded Centrelink's capacity to develop strategies to improve

the service it provides to customers, when managing their social welfare debts.

## ANAO recommendations

7.10 The ANAO made nine recommendations to improve Centrelink's debt management functions:

Table 7.1 ANAO recommendations, Audit Report no. 4, 2004-05

- |    |   |
|----|---|
| 1. | <p>The ANAO recommends that, in developing a replacement for Centrelink's current <i>Debt Servicing Strategy</i>, the agency:</p> <ul style="list-style-type: none"> <li>○ continues to improve communication flows between teams within Centrelink responsible for debt prevention, identification and recovery; and</li> <li>○ aligns debt risks to compliance and service delivery risks, enabling greater efficiencies in debt management activities.</li> </ul> <p><b>Centrelink response:</b> Agree.</p>  |
| 2. | <p>The ANAO recommends that FaCS, in consultation with Centrelink, review the external performance monitoring regime for debt management in Centrelink to promote better practices and performance improvements. In particular, the ANAO recommends that the review consider the benefits of:</p> <ul style="list-style-type: none"> <li>○ replacing the current debt key performance indicators in the FaCS–Centrelink Business Partnership Agreement with indicators that measure the effectiveness of the four major phases of debt management (prevention, identification, raising and recovery); and</li> <li>○ revising the Outcome–Output measures in both FaCS and Centrelink Portfolio Budget Statements to encompass these measures, which would then be reported against in the agencies' respective Annual Reports to the Parliament.</li> </ul> <p><b>Centrelink response:</b> Agree with qualification. <b>FaCS response:</b> Agree with qualification.</p> |
| 3. | <p>The ANAO recommends that Centrelink monitor customer satisfaction with the administration of its debt raising and recovery activities, and use those results to improve debt service delivery.</p> <p><b>Centrelink response:</b> Agree.</p>   |
| 4. | <p>The ANAO recommends that Centrelink review the implementation, including funding arrangements, of debt prevention activities across its network, and determine whether this implementation supports effective leadership and coordination of debt prevention and management initiatives by Centrelink's Debt Services Team.</p> <p><b>Centrelink response:</b> Agree.</p>  |
| 5. | <p>The ANAO recommends that, to help support debt prevention initiatives, Centrelink develop a set of internal performance indicators that accurately measure, and/or assess, the effectiveness of its debt prevention activities.</p> <p><b>Centrelink response:</b> Agree.</p>  |
| 6. | <p>The ANAO recommends that Centrelink undertake a review of the accuracy of the value of debts determined and raised by its Compliance Teams. If the results of this analysis identify low rates of accuracy, immediate remedial action is advisable.</p> <p><b>Centrelink response:</b> Agree.</p>  |

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

**Centrelink response:** Agree.

8. The ANAO recommends that, to increase the efficiency and effectiveness of debt recovery operations, as well as customer service, Centrelink:
- proceed with the planned implementation of a nationally-based approach to its recovery operations, which provides guidance to Areas about recovery structures, processes and practices; and
  - upgrade the recovery infrastructure, including the telephonic and online systems, to ensure customers can readily access Recovery Officers.

**Centrelink response:** Agree.

9. The ANAO recommends that Centrelink continue with the development of:
- a national training program for Recovery Officers to provide consistency of approach as well as adequacy of skills, and which would support a high level of performance, throughout the Centrelink network; and
  - debt recovery scriptors for use by Recovery Officers, to improve consistency of advice and decision-making.

**Centrelink response:** Agree.

---

- 7.11 The agencies' qualified response to recommendation two is further outlined later in this chapter.

## Characteristics of Centrelink debt

- 7.12 The ANAO listed the major characteristics of Centrelink customers' debt. Understanding the characteristics of debt enables a risk-based approach to debt prevention and identification. Centrelink debt was characterised by:

- the incidence of debt being strongly linked to the type of payment;
- customers in 'non-stimulus' programs – those which do not require regular reporting to Centrelink, such as the age pension – have larger debts than customers in 'stimulus' programs such as NewStart;
- a large number of small debts, and a small number of large debts that represent a significant proportion of the value of total debt;
- the majority of the total number of outstanding debts is less than a year old; and

- nearly 75 per cent of all debts were under some type of recovery arrangement.<sup>2</sup>

7.13 Over half of all debts are between \$0 - \$500. Around 30 per cent of debts are between \$500 - \$2,000. Just under 10 per cent are between \$2,000 - \$4,000, and another 10 per cent comprises debts greater than \$4,000.<sup>3</sup>

7.14 The Committee was concerned to note that people on the Age Pension, Disability Support Pension and Sickness Allowance have a higher average size of debt. Some programs, such as Sickness Allowance, also have a much higher incidence of debt than others. An ANAO table outlining outstanding debt per program is reproduced below:

Table 7.2 Centrelink outstanding FaCS Portfolio debt, by program

| <i>Program</i>                 | Outstanding value<br>of debt 30 June 03<br>(\$'000) | Share of total<br>debt<br>(%) | Average size of debt<br>per debtor<br>(\$) |
|--------------------------------|---|-------------------------------|--|
| Age Pension                    | 65 729  | 6.8                           | 3 293                                      |
| Disability Support<br>Pension  | 112 553   | 11.6                          | 2 970                                      |
| Sickness Allowance             | 8 002   | 0.8                           | 1 815                                      |
| Newstart Allowance             | 285 471   | 29.5                          | 899  |
| Parenting Payment<br>Single    | 105 631   | 10.9                          | 1 341                                      |
| Parenting Payment<br>Partnered | 53 126  | 5.5                           | 1 186                                      |
| Youth Allowance                | 113 389   | 11.7                          | 1 014                                      |
| Austudy                        | 19 971  | 2.1                           | 2 086                                      |
| Special Benefit                | 7 131   | 0.7                           | 2 262                                      |
| Family Tax Benefit             | 24 039  | 2.5                           | 461  |
| Other FaCS                     | 172 643   | 17.8                          | 3175                                       |
| TOTAL                          | 967 684   | 100                           | 1 312                                      |

*Note:* Average size of debt per debtor is calculated by total value of debt divided by the number of program customers with debts.

*Source:* ANAO Audit Report no. 4, 2004-05, p. 137, from Centrelink data 2003.

7.15 Centrelink acknowledged that while many debts are relatively small, at less than \$500, this can still place a significant burden on the individual.

<sup>2</sup> ANAO Audit Report No. 4, 2004-05, *Management of Customer Debt (Centrelink)*, Commonwealth of Australia, August 2004, p. 34.

<sup>3</sup> ANAO Audit Report no. 4, 2004-05, Figure A1.3, p. 139.

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...a small debt can cause a great deal of stress to a person, as can a large one.<sup>4</sup>

## **Frameworks and processes to manage customer debt**

7.16 The way Centrelink manages customer debt is largely determined by:

- social security law and the Social Security Guide;
- directions from FaCS as the policy agency;
- Centrelink's own policies regarding accuracy and correctness of customer payments; and
- Centrelink's administrative structures, including national-level structure of debt management, and network structure and administration arrangements.

7.17 Centrelink's debt management is segmented to the National Office, Area Support Offices<sup>5</sup>, or Customer Service Centres (CSCs), according to each task – policy or management tasks are overseen by a National Office team, while more operational and processing functions are undertaken by the ASOs or CSCs.

7.18 The following table outlines the major debt management processes in the Centrelink network (at the time of the audit).

---

4 Centrelink, *Transcript of Evidence*, 4 April 2005, p. 27.

5 The Customer Service Centres provide shopfront facilities for Centrelink customers. The CSCs are grouped into 15 geographical areas, known as Area Support Offices. These ASOs provide management, administrative and operational support to each CSC in their area.

Table 7.3 Debt management processes in the Centrelink network

| Program   | National Support Office (NSO)   | Area Support Office (ASO)   | Customer Service Centre (CSC)  | Call Centre                                   |
|---|---|---|--|---|
| <b>General Processing</b><br>Processing customer information                  | Provide guidance  | Specialist advice to CSCs and Call centres on National Support Office directions      | Implement NSO and ASO policies and processes   | Implement NSO and ASO policies and processes  |
| <b>Overall responsibility for debt</b><br>Guidance and performance monitoring | Debt Services Team – monitors debt performance for all ASOs   | Monitor debt performance for all CSCs   | Obligated to meet key performance indicators and internal targets  | None.   |
| <b>Prevention</b><br>Debt Prevention and Monitoring Officers                  | Debt Services Team provides leadership and coordination   | ASO employees, with NSO and ASO direction   | Out-posted to some CSCs but no line responsibility to CSC managers<br>Debt Prevention Officers undertake presentations and outreach to customers and third parties | None.   |
| Other specific prevention work  | Debt Services Team undertakes analysis of database and works with consultation with other teams to develop debt prevention strategies | Dependent on individual Area  | Seminars and advice to customers about debt prevention and customer notification obligations   | General debt prevention messages to customers |
| Working Credit  | Central rollout   | Coordination selection and training of staff and provide guidance to CSCs on policies | Deliver program  | None  |
| Identification<br>Data-matching   | Undertakes datamatching tasks   | ASO teams action cases identified through data matching                               | None   | None  |
| Service Profiling   | Provides guidance about   | Manage resources to CRCs  | Profiling interviews are   | Answer queries                                |

|   | resourcing and approach to payment accuracy, participation strategies and service updates |   | undertaken at CSCs   | regarding reasons for Centrelink contact.                           |
|---|---|---|--|---|
| <b>Debt Raising</b>   |   |   |  |   |
| Specialist debt raising teams   | Project managed by Debt Services Team   | Determine which debt raising model to use   | Raising generally undertaken by CSCs                                 | None  |
| Debt raised by compliance teams   | Compliance teams are expected to raise debts  | Raise debts   | CSCs do not usually include compliance teams                         | None  |
| <b>Debt recovery</b>  |   |   |  |   |
| Specialist debt recovery teams  | Manage the recovery system  | 13 Area teams at the time of the Audit  | Generally no recovery teams  | None  |
| Recovery by Customer Service Officers in CSCs and Call Centres as part of normal business | Provide recovery guidelines   | Manage repayment offers that do not fall within the CSC and Call Centre guidelines for acceptance | Accept offers that fall within guidelines. Refer other cases to ASO. | Accept offers that fall within guidelines. Refer other cases to ASO |

Source ANAO Audit Report No. 4, 2004-05, pp. 147 – 149.



- 7.19 The ANAO found that Centrelink and FaCS had developed a framework that provided the opportunity to effectively manage customer debt.<sup>6</sup> However, communication between the two organisations could be improved, especially in determining and implementing debt prevention and identification programs. Similarly, the ANAO found that Centrelink could improve communication flows between the various teams within the agency responsible for debt prevention, identification and recovery.
- 7.20 The basis of the relationship between Centrelink and FaCS was initially defined in the *FaCS-Centrelink Business Partnership Agreement 2001-2004* (BPA). In July 2004, FaCS and Centrelink subsumed the BPA into a broader relationship, *Alliance 2004*. The aim of the Alliance 2004 project was to better align five major projects: Centrelink Funding Model; Outcomes and Outputs Framework; Business Partnership Agreement; Business Assurance Framework; and Information and Evidence Base.
- 7.21 The ANAO was unable to assess the extent to which Alliance 2004 would improve debt management in Centrelink, as the project had not been implemented at the time of research for the audit. However, the ANAO supported the objectives of the program.
- 7.22 One of the major platforms of Centrelink's debt management framework is the *Getting it Right* strategy. *Getting it Right* is aimed at improving payment and decision accuracy and eliminating any preventable re-work. Through the *Getting it Right* strategy, Centrelink aims to ensure it pays the right person, under the right program, at the right rate, for the right date, every time it makes a payment. This strategy is called the 'four pillars'. The strategy was endorsed by the Centrelink Board in April 2000, while implementation commenced in November 2000.
- 7.23 The ANAO commented favourably on Centrelink's *Debt Servicing Strategy 2001-2004*, and found that it had raised the profile and importance of debt management in Centrelink, and provided valuable guidance to debt management initiatives. The ANAO noted that at the time of the audit, a new strategy was due to be developed, and

---

6 The ANAO produced a detailed table on Centrelink's key strategies, policies and processes for managing debt – see Figure A2.2 in Appendix 2, ANAO Audit Report no. 4, 2004-05.

that this provided an opportunity for strengthening the guidelines and integration of Centrelink's debt management processes.

- 7.24 The ANAO recommended (no. 1) that in redeveloping its debt servicing strategy, Centrelink improve the communication flows between debt management teams within the agency, and align debt risks to compliance and service delivery risks.<sup>7</sup>
- 7.25 The Centrelink submission to the Committee reported that the organisation has embarked upon a process to reform all aspects of compliance (termed by Centrelink as payment integrity). This reform would include a redevelopment of the debt servicing strategy.
- 7.26 The three core principles of Centrelink's development of its Payment Integrity Strategy are:
1. that payment integrity is fundamental to program design and implementation, not a separate operational activity;
  2. that the payment integrity model should coordinate Centrelink's people, processes and technology so that 'integrity-driven performance is embedded into the operating core'; and
  3. the organisation's culture must be appropriate to the new focus.<sup>8</sup>
- 7.27 In August 2005 Centrelink advised the Committee that its Payment Integrity Strategy had been finalised. Part of the Strategy is that Centrelink implement the ANAO's recommendation regarding communication flows. Centrelink reported that overall responsibility for business integrity is now under one General Manager.<sup>9</sup>

### Committee comment

- 7.28 The Committee is pleased to note progress towards implementation of this recommendation and looks forward to a progress report from Centrelink on the implementation of its new payment integrity strategy.

---

7 ANAO Audit Report no. 4, 2004-05, p. 41.

8 Centrelink, submission no. 3, p. 1.

9 Centrelink, supplementary submission no. 3.1, p. 1.

## Recommendation 18

- 7.29 **The Committee recommends that Centrelink prioritise the implementation of its payment integrity strategy, to ensure that payments are right in the first instance, rather than relying on reactive processes.**

**Centrelink should report to the Committee on its progress in implementing the payment integrity strategy in February 2006 and July 2006.**

## Debt prevention

- 7.30 The ANAO found that Centrelink had improved the profile and importance of debt prevention in the agency, particularly by clearly articulating its objectives in the *Debt Servicing Strategy 2001-04*.
- 7.31 Similarly, the ANAO noted recent improvement in Centrelink's debt prevention strategy development, involving a move away from reliance on anecdotal information that led to disjointed and ad-hoc efforts in the past. At the time of the audit, Centrelink had also recently developed and begun to implement a debt prevention project.
- 7.32 The ANAO found that Centrelink's Debt Services Team was facing difficulties in coordinating debt prevention and management initiatives across the agency, including monitoring the performance of debt prevention activities in Area Support Offices (ASOs), and encouraging ASOs to adopt better debt prevention practices. The ANAO found that if Centrelink identified better practice in individual Debt Services offices, this could help to improve leadership and coordination of debt prevention and management across the network.
- 7.33 The ANAO found that Centrelink did not effectively measure the impact of its debt prevention activities (recommendation 4). At the time of this Committee's report, Centrelink is in the process of revising internal indicators of debt prevention performance.

- 7.34 At the hearing the Committee asked a number of questions relating to debt prevention.
- 7.35 Centrelink told the Committee of new measures being introduced to bolster debt prevention. For example, many Youth Allowance debts are created because students change courses or the number of hours they attend a course, which affects their payment entitlement. However, students do not often advise Centrelink of these changes. Centrelink is now working to undertake data-matching with academic institutions in order to avoid debts. This strategy is also being trialled with major employers.<sup>10</sup> The Committee believes strategies such as these are vital in ensuring that clients do not accumulate a Centrelink debt.

### **Recommendation 19**

- 7.36 **The Committee recommends that Centrelink proceed with data-matching activities with academic institutions and major employers, in an effort to prevent debts incurred when clients change study courses or employment.**
- 7.37 Centrelink also outlined a new project called *Keeping the System Fair*, in which 15 Centrelink employees are embedded throughout the network, whose job is to provide more strategic focus for debt prevention activities and to undertake local level analysis to inform marketing campaigns. These people will also be responsible for developing external output measures for debt prevention.<sup>11</sup>
- 7.38 Centrelink told the Committee that it is progressing towards full online access for customers. When this system is fully operational, Centrelink customers will be able to view the information held by Centrelink about them (ie, income level, assets, etc). Customers will be able to inform Centrelink about changes to their circumstances via the internet, rather than needing to visit a Centrelink office or make a telephone call. Centrelink advised that the most popular piece of information currently accessed on its internet site is customers' debt.<sup>12</sup>

---

10 Centrelink, *Transcript of Evidence*, 4 April 2005, p. 13.

11 Centrelink, *Transcript of Evidence*, 4 April 2005, p. 5.

12 Centrelink, *Transcript of Evidence*, 4 April 2005, p. 13.

Centrelink is also planning to run a media campaign to tell people about their notification obligations.<sup>13</sup>

- 7.39 The Committee notes that many of the new measures outlined by Centrelink to improve debt prevention may primarily be accessed by younger Centrelink customers. For example, customers on the Age Pension may be less likely to use the internet to check on the information held by Centrelink about their income and assets. Unfortunately it is this group of people who are more likely to have a large Centrelink debt, because they are not in regular contact with the agency. The Committee asked Centrelink what it is doing to try to inform these people of the need to check their Centrelink details. Centrelink responded that it sends regular newsletters to all Age Pensioners, and they use other methods such as financial advisors, to convey information to these customers. Centrelink is trying to ascertain how people would prefer to receive information:

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, would they like us to talk to them personally?

...it [will be] 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.<sup>14</sup>

### Committee comment

- 7.40 The Committee was encouraged to hear of Centrelink's work in a number of areas to improve debt prevention. However many of these improvements, such as internet access to information, may not reach

---

13 Department of Family and Community Services (FaCS), *Transcript of Evidence*, 4 April 2005, p. 12.

14 Centrelink, *Transcript of Evidence*, 4 April 2005, p. 14.

some of those Centrelink customers who are accumulating the largest debts – Age Pensioners, those on Sickness Allowance, and others on long-term payments that do not require regular customer contact with Centrelink.

- 7.41 The Committee urges Centrelink to continue its work on how to best communicate with these groups of customers, in an effort to prevent the accumulation of large debts.

## Identification of overpayments

- 7.42 Centrelink identifies debts through its compliance framework, which includes:
- compliance reviews - comprising data matching, tip-offs, investigations and surveillance;
  - program reviews - an activity initiated by Centrelink to ascertain whether a customer is receiving his/her correct entitlement, for example, cyclic reviews (such as every four weeks) and event-based reviews (such as the birth of a child);
  - Service Profile reviews - a means of identifying which customers need a more targeted level of service to assist them to meet program outcomes. When fully implemented, Service Profiling will replace all former program reviews for all payments; and
  - customer initiated re-assessments - where a customer voluntarily advises Centrelink of a change in his/her personal circumstances.

- 7.43 The ANAO found that these procedures were generally effective in identifying debts. However, compliance reviews accounted for 76 per cent of the debts identified through reviews, while representing only 19 per cent of the number of reviews, in 2002–03.

### Tip-offs

- 7.44 The National Tip-off Reporting Centre provides an additional compliance and identification tool, as it allows Centrelink to identify activities that other compliance or program reviews would not detect. Common activities subject to tip-offs include customers living in marriage-like relationships, without declaring this relationship to Centrelink, and customers undertaking 'cash in hand' work, that

would not be detected by Centrelink's data matching programs with the Australian Taxation Office.

- 7.45 Centrelink told the Committee that it processes around 100,000 tip-offs per year and that the number of debts resulting from those tip-offs would be a smaller number. However, it is a valuable tool both in terms of actual debts raised and also as a deterrent. An analysis of tip-offs also gives Centrelink an insight into people who are not caught by their data-matching activities.<sup>15</sup>

### Other methods of debt identification

- 7.46 The ANAO stated that Centrelink may be able to improve the effectiveness of identification activities by either focussing more intensively on compliance reviews, or improving the performance of other methods of review.

- 7.47 Some of the methods suggested by the ANAO included:

- cross referencing customer behaviour and attributes with known debt factors (such as size, frequency, geographic, seasonal and demographic factors) to better target debt prevention strategies;
- drawing on the experience of other agencies such as the Australian Taxation Office and the Child Support Agency to develop best practice models for debt management; and
- better support required for the national coordination unit (the Debt Services Team), to increase its monitoring and approval role in the work of Area debt prevention projects.<sup>16</sup>

### Committee comment

- 7.48 The Committee is concerned that Centrelink appears to be putting a lot of effort into identification activities that do not yield a high level of results. The ANAO reported that although compliance reviews account for only 19 per cent of Centrelink's identification activities, they account for 76 per cent of all debts identified. The Committee agrees with the ANAO's assessment that Centrelink either needs to lift its level of compliance reviews, or improve other identification strategies.

---

15 FaCS, *Transcript of Evidence*, 4 April 2005, p. 20.

16 ANAO Audit Report no. 4, 2004-05, pp. 65-68.

**Recommendation 20**

- 7.49 **The Committee recommends that Centrelink review its methods of identifying customer debt, with a view to improving current methods of debt identification, or increasing the resources dedicated to compliance reviews. Centrelink should also take into consideration the ANAO's suggestion that it consider other methods of debt identification, such as:**
- **cross-referencing customer behaviour and attributes with known debt factors to better target debt prevention strategies;**
  - **drawing on the experience of other agencies such as the Australian Taxation Office and the Child Support Agency to develop best practice models for debt management; and**
  - **increasing support for the national coordination unit to better manage debt prevention projects.**

**Debt Raising**

- 7.50 The ANAO considered that Centrelink's restructuring of the non-compliance debt raising process in mid-2003, which involved the introduction of specialist debt raising officers and teams, has the potential to significantly improve the agency's administration of this aspect of debt management. The ANAO found that together with improved technical support tools for debt raising officers, restructuring the non-compliance debt raising process within Centrelink appeared to have improved the timeliness and accuracy of debt raising.
- 7.51 In August 2005 Centrelink told the Committee that an internal audit had reviewed the accuracy of debts raised by Centrelink staff. A number of issues were identified, pointing to differences in the effectiveness of debt raising strategies within Centrelink. The submission from Centrelink stated that it would further review the



recommendations of the internal review in order to develop an appropriate response.<sup>17</sup>

- 7.52 While Centrelink has undertaken major restructuring of its non-compliance debt raising functions, the ANAO found that there had been no accompanying reform of its compliance-based debt raising processes. This is despite compliance debt representing a significant proportion of benchmark debt, and the adverse results of Centrelink's own October 2002 review of debts raised by Compliance Officers for ABSTUDY payments, which found high rates of error for compliance debts.

## Debt waiving

- 7.53 During fieldwork for this audit, the ANAO interviewed a number of Centrelink's Authorised Review Officers and also held discussions with external stakeholders. The ANAO noted the view held by Centrelink Authorised Review Officers, and external stakeholders, that Centrelink Customer Service Officers are often reluctant to waive debts, with the exception of the most obvious of cases, where Centrelink had been at fault. However, interviews with the Customer Service Officers themselves revealed that they felt they were waiving debts as appropriate.
- 7.54 The ANAO found that Customer Service Officers chose not to waive debts for a number of reasons. These included a lack of confidence in their own ability to interpret the Centrelink guidelines on 'good faith' and 'special circumstances', and also a belief that the downstream appeal process would correct any incorrect decision.
- 7.55 While acknowledging that it is difficult to have complete consistency in applying concepts such as 'good faith', the ANAO was strongly critical of staff decisions to raise a debt in the belief that a mistake would be corrected by the downstream appeal process. The ANAO commented:

This assumes that all customers have the same ability to understand their rights, and have the same capacity and motivation to question a decision to raise a debt against them.

Interviews with external stakeholders identified that it is

---

17 Centrelink, supplementary submission 3.1, p. 2.

often the customers in the worst possible circumstances who are those least able to appeal against debts. In many cases, the debt-raising officer is well aware of these customers' circumstances.<sup>18</sup>

- 7.56 Centrelink responded that it is considering raising the automatic waiver threshold above the current \$50 limit (discussed further at paragraph 7.65). This would significantly reduce the number of waiver decisions to be exercised by staff.
- 7.57 In August 2005, Centrelink stated that it had completed a work plan to review the appropriateness of how debt waivers are applied throughout the network, as recommended by the ANAO. However, 'the availability of appropriately skilled staff will determine the specific timing of this activity.'<sup>19</sup>

### Committee comment

- 7.58 The Committee agrees with the ANAO's assessment that Centrelink officers must not rely on the appeals process to pick up any mistakes they may have made in raising a debt. The ANAO found clear evidence that Centrelink debt-raising staff do not feel they have the confidence to make correct decisions on the appropriate circumstances in which to authorise a debt waiver.
- 7.59 The Committee is concerned to hear that Centrelink does not know when it will complete a review of the appropriateness of how debt waivers are applied throughout the network, despite having agreed to implement the ANAO's recommendation to undertake this review.
- 7.60 It is of primary importance to ensure that Centrelink staff are capable of making appropriate decisions, and are encouraged to refer cases in which they are in doubt, to a more senior staff member for decision. Centrelink should undertake the debt waiver review, as recommended by ANAO, as a matter of priority. This should help to ensure consistency across the network in applying debt waiver measures.

---

18 ANAO Audit Report no. 4, 2004-05, p. 109.

19 Centrelink, supplementary submission no. 3.1, p. 2.

## Recommendation 21

- 7.61 **The Committee recommends that Centrelink provide training to all officers responsible for debt raising, on the correct circumstances in which to apply a debt waiver. The training should focus on empowering workers to make responsible decisions, and an emphasis on the importance of getting decisions right in the first instance, and not relying on downstream appeal mechanisms.**

**Centrelink should also introduce a standard operating procedure whereby debt raising officers refer any matter on which they are uncertain whether to apply a 'special circumstances' waiver, to a more senior officer for consideration.**

**Centrelink should undertake a review of the appropriateness of applying Debt Waivers throughout the Centrelink network, taking into account the matters raised in the ANAO report, as a matter of priority.**

## Debt recovery

- 7.62 The Audit Report found that Centrelink had inconsistent debt recovery structures and processes across its network. At the time of the audit, recovery was left to individual Area Support Offices to administer. As a result, there were significant differences across the network in the levels of skills of Debt Recovery Officers, the likely levels of customer service, and the performance of Debt Recovery Teams.

### New Debt Recovery structure

- 7.63 At the time of the audit, the ANAO noted that Centrelink was planning a restructure of its recovery operations. Centrelink reported to the Committee that centralised debt recovery arrangements were implemented on 1 October 2004. There are now six specialised debt recovery sites. Three teams deal with debts of up to \$5,000, two with debts over \$5,000, and one team is dedicated to indigenous payments. The new arrangements included the introduction of a dedicated telephone number for customers contacting Debt Recovery; an upgrade of the telephone system by June 2005 to route calls to the best team based on current workloads; training for all existing and new

debt recovery staff; and transcripts to assist staff to be professional in their approach to customers.<sup>20</sup>

- 7.64 The ANAO found that Centrelink's arrangement with its contracted mercantile agent (Dun and Bradstreet) was an effective way of recovering older debts that are not cost effective for Centrelink to pursue with internal resources. Centrelink responded to the ANAO's finding by increasing the number of debts forwarded to Dun and Bradstreet for management, and by replicating Dun and Bradstreet's telephone routing system (described above).<sup>21</sup>

### Cost of debt recovery

- 7.65 The Committee questioned the cost-benefit of debt recovery operations. Centrelink advised that at the moment, it does not take any action on a debt that is below \$50. Although the debt is calculated and raised, it is waived automatically without the customer being informed. Centrelink is currently undertaking a review of the cost-effectiveness of recovering debts less than \$100, and expects to raise the waiver limit to somewhere between \$50 and \$100. Centrelink told the Committee that 50 per cent of all debts raised are less than \$100.
- 7.66 The Committee agrees that small debts should be waived rather than spending resources in trying to recover these debts. The Committee supports Centrelink moves to increase the debt waiver amount from \$50 to a maximum of \$100.
- 7.67 However, the Committee believes that it would be beneficial to inform Centrelink customers that they did incur a small debt, which has been waived. This would inform customers about debt prevention and help to prevent the accumulation of such small debts in the future.

---

20 Centrelink, submission no. 3, pp. 6-7.

21 ANAO Audit Report No. 4, 2004-05, p. 117; and Centrelink, *Transcript of Evidence*, 4 April 2005, p.7.

## Recommendation 22

7.68 **The Committee recommends that the debt waiver amount be raised from \$50 to not more than \$100. The Committee recommends that where small debts are raised and automatically waived, customers should be informed of this action and of steps they can take to prevent a debt being incurred in the future.**

**Where a customer continues to incur small debts of less than \$100, that are continually waived, Centrelink should retain the right to recover these debts if a pattern of behaviour is apparent whereby the customer is not making any effort to prevent the incursion of small debts.**

### Repayment method

7.69 Centrelink customers may repay their debt via Post Office or Rural Transaction Centres, direct debit from a bank account, or voluntary deduction from wages. Customers may also choose to pay via credit card.

7.70 In 2003, Centrelink policy was for Recovery Officers to not offer the credit card payment option to customers, unless the customer specifically requested it. However, the ANAO visits to field offices observed a lack of adherence to this guideline. This applied to Centrelink Recovery Officers and staff of Dun and Bradstreet.

7.71 Centrelink subsequently advised the ANAO that from March 2004, Centrelink staff could no longer accept credit card payments. Customers wishing to pay by credit card could still do so via Australia Post. As the audit fieldwork was concluded by this stage, the ANAO could not test whether Centrelink staff were adhering to this new policy.<sup>22</sup>

7.72 However, Dun and Bradstreet debt collection officers continue to accept payment by credit card, although they are required to offer the credit card option last on this list, and not encourage it above other payment methods. ANAO suggested that that Centrelink and Dun and Bradstreet continue to monitor adherence to the guidelines regarding credit card payments.

---

22 ANAO Audit Report no. 4, 2004-05, p. 126.

## Committee comment

- 7.73 The Committee notes that Australia's credit card debt now stands at over \$30 billion, with an average debt of over \$2,500 per account.<sup>23</sup> One of the objectives of Centrelink's debt recovery is to recover the money owing without causing 'real financial hardship' to the customer. The Committee believes that encouraging customers to transfer their government debt to a credit card with potentially high interest rate could, in some circumstances, lead to the customer experiencing real financial hardship. For some people, what may seem like an easy solution in the short term could compound their financial difficulties over the longer term. However, the Committee acknowledges that individuals must have the right to manage their financial affairs according to how they see fit.
- 7.74 The Committee believes that it is important that Centrelink and Dun and Bradstreet staff emphasise the advantages of other payment methods over a credit card which may attract high interest rates.

---

## Recommendation 23

- 7.75 **The Committee recommends that Centrelink monitor the work of its debt recovery officers, and those employed by its debt recovery agent, to ensure that customers are encouraged to repay debts via means other than credit cards.**

## Performance monitoring of debt management in Centrelink

- 7.76 The ANAO's recommendation number two called for FaCS, together with Centrelink, to review the external performance monitoring regime for debt management in Centrelink, to promote better practices and performance improvements. The ANAO called for an overhaul of the debt Key Performance Indicators and the associated outcomes-outputs framework that is reported in yearly Portfolio Budget Statements.<sup>24</sup> FaCS agreed with qualification, stating that new debt raising and debt recovery output measures were developed and
- 

23 Reserve Bank of Australia, Bulletin May 2005, Table C1, at: <http://www.rba.gov.au/Statistics/Bulletin/index.html>, accessed June 2005.

24 ANAO Audit Report no. 4, 2004-05, p. 154.

agreed by FaCS and Centrelink by July 2004. The new measures were that:

- debt raising: that debts determined be 65 per cent of the undermined debt base; and
- debt recovery: that value of debts under recovery be 65 per cent of the debt base.

7.77 Centrelink argued that identifying a target dollar figure for debt identification would run counter to the objective to prevent debt. FaCS similarly argued that 'setting balanced KPIs for social security debt is extremely complex...each of the stages of debt management is affected by factors that are outside the control of Centrelink.' FaCS also argued that very specific KPIs could lead to unintended consequences, 'for example, setting dollar targets for debt identification could undermine debt prevention objectives'.<sup>25</sup>

7.78 FaCS and Centrelink have agreed with the ANAO's suggestion to improve debt key performance indicators (KPIs) by supplementing the recently revised set of KPIs with measures of the effectiveness of debt prevention and identification, and the accuracy of debt raising, as well as reporting on the magnitude of outstanding debt.

7.79 In August 2005 Centrelink reported that it had agreed with all key agencies that the foundation principle for measuring debt prevention is the level of payment correctness. As a trial, Centrelink will measure this payment correctness via Random Sample Surveys during 2005-06. The appropriateness of this measurement tool will be assessed before finalising a measure for debt prevent to be included in the Centrelink Business Partnership Agreements for 2006-07.<sup>26</sup>

7.80 The Committee is pleased with this progress in developing new output measures. The Committee agrees with FaCs and Centrelink that there must be careful consideration in setting KPIs to ensure that any targets do not undermine another Centrelink objective (such as debt prevention).

## Further reviews

7.81 The ANAO found that Centrelink did not monitor customer satisfaction with its debt management services, nor fully measure its

---

25 ANAO Audit Report no. 4, 2004-05, p. 157.

26 Centrelink, supplementary submission no. 3.1, p. 1.

debt management resourcing and cost, to ascertain relative productivity and cost efficiency, and achieve future savings.

- 7.82 The Committee is now undertaking a further review of a number of ANAO reports related to Centrelink customer satisfaction.
- 7.83 The ANAO's audit excluded debts relating to Family Tax Benefit payments. The ANAO considered that 'due to continuing changes occurring in the Family Tax Benefit program, a future separate, comprehensive audit would be better placed to consider debts relating to the Family Tax Benefit Program.' The Committee notes that the ANAO plans to undertake this audit in the 2005-06 financial year.