



**Centrelink Submission to the
Productivity Commission's
Inquiry into the Job Network**

December 2001

[M]any people felt that if only they could go to one place and have all their business done in that one spot it would be a lot more efficient, it would be a lot more human and it would make a great deal more sense. ... The consolidation in Centrelink of so many of the services of the Government that interact with people will provide, of course, a more human face [and] a more efficient service. ... In the past we have encouraged people to go from one location to another and we have often confused them with a lot of administrative duplication. And in one very big stroke Centrelink cuts through that duplication. Centrelink consolidates in an efficient modern fashion the major service delivery activities of the Federal Government.

The Hon John Howard MP, Prime Minister, Address at the Official Launch of Centrelink, 24 September 1997.

Introduction

The purpose of this submission is threefold:

- To explain Centrelink's role in the Government's program to assist people seeking employment;
- To share Centrelink's experience in a purchaser/provider framework; and
- To point out some of the problems with current arrangements and suggest possible ways forward.

In the Beginning

Centrelink was established as a statutory authority with its own legislation in 1997. It derives its revenue by providing services on behalf of over 20 Commonwealth and state government agencies. Services provided on behalf of the Department of Employment and Workplace Relations (DEWR) generates about seven percent of Centrelink's revenue.

Centrelink is a large, decentralised, organisation operating out of over 1000 service delivery points across Australia and employing some 24 000 people.

Centrelink runs 28 call centres, many which provide specialist service (e.g. multilingual, indigenous, rural etc). Centrelink call centres processed over 22 million calls in 2000-01.

Centrelink also provides a number of outreach services to people who for many reasons have difficulty in accessing Centrelink.

Centrelink undertakes major community liaison programs. The objective is to bring community organisations, local government, and local offices of Commonwealth and state governments together so as to better co-ordinate effort.

Centrelink has a major web presence and received 9 million web page visits in 2000-01.

In 2000-01, it made payments totalling \$52 billion to 6.3 million customers¹ including retirees, families with children, unemployed, students and people with a disability.

¹ This is the number of customers on the last Friday of June 2001. The total number of customers over the year is significantly greater.

These payments are about one third of Commonwealth budget outlays. Its departmental expenditure is approximately \$1.7 billion².

Since its start-up, Centrelink's funding from its major client departments has been subject to efficiency dividends. The cumulative effect of these efficiency dividends over Centrelink's first five years of operations to 30 June 2002 is a reduction of \$826 million in revenue (i.e. a saving to Government). Centrelink achieved further efficiencies by delivering additional services without receiving any funding. (This includes both new policy and increased workload in processing customer).

Centrelink has managed to deliver these substantial dividends through a combination of staff reductions (20 per cent over three years to 2000-01) and through integration of services previously delivered by different departments to capture economies of scale and scope. The current implementation of the new Life Events service delivery model bundles the services that client departments purchase from Centrelink around the services likely to be needed by customers going through any one of eleven life events (e.g. looking for work, undertaking study or training, retiring etc). This allows Centrelink to provide an integrated response to the needs of individual customers.

Centrelink and its Environment

Centrelink, as a provider of services, operates on three different levels: as a preferred provider; convenient provider; and competitor. It is also important to note that for most services Centrelink is facing a single purchaser (monopsony).

- Centrelink is the Government's **preferred provider** for a large part of services provided. This reflects the Government's rationale for its establishment, that is, as the 'gateway' to social services. The idea is that Centrelink should undertake a comprehensive assessment of customers' needs and entitlements and then provide an integrated package of assistance through both in-house services and referrals to external services.
- The second level is where Centrelink is a **convenient supplier**. For example, many organisations could in theory provide emergency funds to victims of unanticipated disasters. However, Centrelink with its national network of people and systems and local knowledge is a convenient and effective provider for the Government. Recent examples include the victims of floods in Katherine and Townsville, Ansett employees and travellers, HIH customers and staff, the sugar industry etc.
- Other examples of Centrelink as a convenient supplier are based on other reasons such as the profile of Centrelink's customer base or Centrelink's technical expertise. For example:
 - Centrelink was asked to provide public transport concession cards in NSW on behalf of the state government; and
 - Centrelink manages the Bass Strait Equalisation Scheme (BSES) for the Department of Transport and Regional Services. Centrelink has

² In the Commonwealth financial management framework resources are divided into departmental and administered resources. Departmental refers to those funds used by an agency to meet its operational requirements. Administered resources fund services to citizens. In Centrelink's case, it receives about \$1.7 billion (departmental revenue) to meet its operational needs and administers about \$52 billion (administered revenue) for services to customers (most of this represents income support payments).

managed to reduce the cost of processing claims of this scheme by 50 per cent.

- Centrelink is in **competition** for some of its business. For example:
 - Centrelink successfully bid on the open market under a competitive neutrality regime for the Department of Foreign Affairs and Trade's Australian Passport Information Service call centre.
 - The Attorney General's Department has asked Centrelink to set up a web page and call centre that will then be put to the market for management. Both of these reflect Centrelink's reputation in the call centre industry (this is further evidenced in Centrelink's dominance of call centre industry awards this year. Centrelink won Australian Teleservices Association awards in Victoria [where two Centrelink call centres were named joint Call Centre of The Year], New South Wales, Western Australia and South Australia in 2000-01).
 - Centrelink successfully bid to provide services to veterans in rural and regional Australia. In a number of rural and regional offices, Centrelink provides access to Department of Veterans' Affairs (DVA) payments and advice on the full range of DVA programs (such as income support, health treatment cards, war graves etc). Specialist Centrelink staff, trained by DVA, provide services in separate waiting and contact areas of the office. In three sites, Centrelink also provides a community development and advisory role on behalf of DVA. This involves community advisors working with community organisations (including ex-services organisations and local health services) to identify the needs of veterans and assist in developing the services to meet those needs.

While competitive area offers potential growth opportunity, Centrelink focuses on services that are predominantly relevant to its customers and help to achieve the outcomes pursued by its client departments. Centrelink has been approached by a number of insurance companies who would like to contract Centrelink to deliver services on their behalf. Centrelink declined to take up these opportunities as it believes that they could detract attention from its core business.

Some of what are seen as Centrelink monopoly services are actually contestable as Centrelink had to demonstrate that it provided the best option compared to other possible delivery options open to Government. For example, when developing the Australians Working Together initiative for the 2001-02 Budget, a number of possible delivery options were considered, some of which provided for a lesser role for Centrelink than that finally agreed upon.

Maximising Value to the Tax Payer

Competition is only one of several ways that the Government ensures that it is getting value for money from Centrelink.

- The first is the purchaser/provider split. With the client departments focused on policy, their clear incentive is to maximise effectiveness, to ensure the best possible policy outcomes, whilst minimising costs so as to increase the funds available for them to pursue new policy initiatives.

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- Centrelink's Board of Management is dominated by people from the private sector. The impact on Centrelink is that the board puts pressure both directly, and through its Audit, Information and Technology and Quality committees, on Centrelink to deliver high quality service at a reasonable price. Public sector practices are constantly questioned and only maintained where fully justified.
 - Centrelink is not exempt from the scrutiny of the central agencies that seek to induce fiscal discipline and advise the Government on the options available on combinations of policy priorities that can be pursued given a broad fiscal envelope. Part of their assessment of the relative value of a policy is the cost effectiveness of the delivery mechanism. In particular, Finance analyses the cost of service delivery using benchmarks from similar services delivered by other agencies and the private sector.
 - Finance has also been responsible for providing advice on the cost of service delivery of agencies through pricing reviews (Centrelink is currently undergoing such a process).
 - The Australian National Audit Office performance audits put pressure on Centrelink to achieve greater degrees of cost effectiveness. The ANAO has undertaken twelve performance audits on Centrelink since its inception, most of them in the last two years. These have largely found Centrelink performing well but have made a number of recommendations on how Centrelink could improve its performance. The knowledge that, because of its size, Centrelink will always be an important focus of the ANAO's attention puts a fair amount of pressure on the organisation to continuously improve its performance. Centrelink has developed its own internal performance audit capability that, through the Chief Auditor, reports directly to the Board.
 - Accrual accounting has put pressure on Centrelink to focus attention on the management of its resources particularly in terms of management of balance sheet items. This is particularly important for Centrelink in view of its significant information technology assets.
 - The Government's financial reforms put much emphasis on performance information. The combination of improved cost information from accrual accounting, pricing reviews and ANAO benchmarking, with better information on the effectiveness of service delivery is allowing the Government to better measure cost effectiveness.

Other organisations put pressure on Centrelink to maintain a high level of performance such as the Ombudsman, the Privacy Commission as well as the many welfare rights advocacy organisations.

This pressure has led Centrelink's Board and senior executives to pursue a very business like approach towards its operations. Indeed, the predominantly private sector board would not accept any less. Although Centrelink has returned significant efficiency dividends to Government, the Board and executives have determined that a major process of reform is necessary to continue to increase both efficiency and effectiveness. To this end, Centrelink is implementing a new service delivery model, re-engineering its business processes and developing strategic partnerships.

Centrelink - an integrated response

The Government set up Centrelink as a one-stop shop to give customers easier access to income support and to a range of other services (see Box 1 below). It was structured under a purchaser provider regime to ensure greater transparency and cost effectiveness. There has been a 25% reduction in operational costs whilst providing a bigger network offering a broader range of services.

Programs that Centrelink delivers were originally delivered by several different agencies. By bringing these under the one umbrella the Government is now able to provide an integrated response to the needs of the individual.

Box 1: Commonwealth Services Delivery Agency Bill 1997 Second Reading Speech

The establishment of the agency will be a major change in service delivery arrangements for the Commonwealth.It will provide an administrative framework for integrating access to Commonwealth services by consolidating services so that, where possible, people can get the help they need in one place.

The government's objectives in creating the agency are to provide a much better standard of service delivery to the community and to individuals; and to increase service delivery efficiency and effectiveness. The government wishes to shift the focus and direction of customer service from the mechanics of transaction and process to one, which is centred, on individuals and their needs.

It makes sense to consolidate services so that, where possible, people can access them in one place. For example, unemployed people will only have to go to one agency office to seek income support rather than having to go to both DSS and CES offices respectively as at present. In this way the agency will be a significant step to reducing the complexity of government for individuals and the community. The agency will deliver services for a number of portfolios and integrate these into a common point of customer contact. The clear principle underlying the concept of the agency is the government's commitment to put the needs of people for high quality service delivery above the boundaries of Commonwealth departments and agencies.

The Australians Working Together (AWT) initiative announced in the 2001-02 Budget expands Centrelink's role in the provision of Government services. Centrelink is now the 'gateway' to these new initiatives. Centrelink will continue to assess eligibility for income support payments, but will now also play an important role in encouraging and assisting customers to participate both economically and socially, in particular through personal advisors. Centrelink will also provide an important connection with service providers and community organisations, to ensure people get the help they need.

Offering Simplicity to Ease Access

In order to offer a truly integrated service it was necessary to simplify the customer's interaction with Government so that they could more easily navigate their way to the services they needed. There are myriad programs, each designed to meet particular

needs of particular groups of people. This means that each has its unique design but each is nevertheless connected to others for equity and other reasons. Simplifying the system whilst continuing to meet need, limiting effective marginal tax rates without reducing equity, creating losers or costing more than can be sustained is a significant challenge. Furthermore, if we are to continue targeting those in real need, a level of complexity is inevitable.

In order to deliver simplicity to customers the complexity has to be taken behind the counter. To achieve this, Centrelink has invested heavily in training and information and technology. The training is to provide our staff with the skill and knowledge to navigate the customer through this complexity. The technology gives them the necessary support tools and access to information. The information and technology has also been used to integrate the various access channels (over the counter, call centre, on paper and internet) and with external systems (e.g. DEWR systems).

All this program and bureaucratic complexity is kept out of sight of the customer. With the new service delivery model being implemented, rather than matching customers to programs, programs are bundled into life events that the customer is experiencing (e.g. relationship breakdown, leaving home, looking for work, retirement etc). The customer's particular circumstances are assessed to determine their eligibility against the services and a response is designed drawing on services bundled to support individuals experiencing that particular life event. For the customer this means that they are far more likely to get the services they need rather than the ones that they know to ask for. This is the next step away from Government determining the supplicant's eligibility for whatever they are applying for, to Government stepping forward to help citizens meet their fundamental needs.

New Initiatives

To further Centrelink's role as a link point in the provision of services to citizens, Centrelink provides or is developing:

- A *Client Confirmation Service* that confirms the income support status of customers to other service providers. For example Centrelink provides this service to council, banks, state governments, utilities, legal aid, education institutions, ambulance services, etc so that they can determine people's eligibility for concession rates for their services. An online version of this service is being trialled. This service helps reduce leakage of revenue from concession programs and has extensive application beyond the income support arena.
- *Community Connections*, currently under trial, consolidates and extends Centrelink's information on community services. This allows Centrelink staff to provide targeted referrals and also to provide customers with some information on services available in their community. Centrelink intends to make the service available to customers and community service providers through Centrelink's web site.
- Centrelink is developing *Customer Accounts*. These are electronic records that hold life event information. Customers will have access to subsets of the account and third parties (e.g. Job Network Members [JNMs]) will have access if authorised by the customer. Different staff will have different access profiles based on their need to know. This facility will make it easier to

identify barriers to employment and risk factors as well as reduce the need to re-enter data as customers apply for different payments and services.

- Centrelink also helps customers plan and manage their finances. Such services include:
 - *Centrepay*. This allows customers to nominate automatic deductions from their payments to utilities, state housing authorities and other such services. This reduces the chances of customers getting behind on payment to essential services; and
 - *Financial Information Service*. This service provides customers who are retired, or are planning to retire, with advice on financial strategies to assist with their planning (no advice on particular investment products is given).

Many of these services here described have been developed and implemented by Centrelink using its own funds by reallocation of priorities.

Closing the Relationship Gap between Centrelink and JNMs

One problem with the current model is that it makes no provision for any direct relationship between Centrelink and Job Network Members (JNMs). This situation, were it not addressed, would impede further improvement, transparency and integration of services.

In spite of this, DEWR found that 85 per cent of JNMs were highly satisfied with the service provided to them by Centrelink in 2001³.

To address this relationship 'gap' Centrelink has initiated the Partnership Program designed to give each of the three parties operating in the public employment services sector the opportunity to experience each others' working environment.

Each partnership 'team' is made up of a senior member of Centrelink, DEWR and the Job Network. These teams spend a week travelling between sponsor sites. Typically, a team would spend two days in Centrelink (usually including a half day in a Call Centre), two days in a Job Network member organisation and a day in a DEWR State or District office.

The Partnership Program operated on a 'pilot' basis in its first two rounds earlier this year. During the pilot rounds six teams went out into the field in a number of eastern seaboard states. They were given no further instruction than to listen, observe, ask and discuss. The idea was to find any areas where an individual organisation's performance could be improved, and to identify areas where the interaction between organisations could be improved. Following their week in the field, participants were recalled to Canberra for a workshop to present their findings to management and other participants, and discuss issues that had been raised.

This recall workshop is attended by senior executives of the three sponsor organisations: the DEWR secretary and senior group leaders, the Deputy CEO of Centrelink and National Manager Employment Services amongst others, and the CEO of the National Employment Services Association (NESA).

³ DEWR, 2001 *Service Provider Evaluation of Employment Services (Centrelink) Survey*, p.6.

The workshop allows the participants to provide feedback directly to the senior executives responsible for the delivery of employment services throughout Australia. These are not written reports filtered 'up the line', but the opportunity for participants to talk directly and openly with these executives.

The pilots of the program were considered such a success that the Partnership Program has been strongly endorsed by DEWR, NESAs and Centrelink, and has now become central in the performance improvement strategy of all three sponsor organisations. Three post-pilot rounds of the program will be held in 2001.

The success of the program can be seen on many levels. Firstly, and most obviously, the experience of visiting various organisations with colleagues working in those areas helps to build personal networks between the three sponsor organisations.

Secondly, the participants return to the recall day with observations and suggestions. Most of these have already been discussed during the week's fieldwork and they have begun to develop from simple suggestions into operational improvements.

Thirdly, the participants developed a much better overall view of the employment services sector and began discussing changes that could improve outcomes for job seekers. An issues list from each of the recall workshops is maintained and these issues are investigated and resolved by Centrelink, DEWR and the Job Network between rounds of the program. Many of these issues have been long-standing, but hidden because of the lack of interaction between the three organisations in the past.

The first two partnership program pilots found many of the same problems regardless of their location. Since the trials, participants have been given more specific themes to focus on, but the principles of listen, observe, ask and discuss still apply.

In following rounds, remote servicing issues were a focus of several teams and the resulting recall workshop heard some innovative ways of helping remote job seekers.

The Partnership Program has been so successful to date, that the same principles are being suggested for local programs. Centrelink Customer Services Officers would spend a day with a Job Network member organisation and then host a return visit by the Job Network member in a Centrelink site.

These represent only first steps in what Centrelink and JNMs (through NESAs) see as a necessary move towards much closer working relationships that can deliver value both to customers and to the Government. Centrelink and JNMs are seeking the support of client departments to better coordinate and integrate effort in such areas as planning, information management, process design etc.

It must be noted that it would be unlikely that such initiatives would be pursued in an environment where Centrelink services were delivered by competing organisations, as these would seek to control information to maximise their competitive advantage. Instead, Centrelink as a Government organisation, actively seeks to integrate information from a number of providers and client Departments with its own to provide information to those who need it, when they need it so as to provide the right services to the right people at the right time.

Centrelink as an efficient provider

Another significant objective for Centrelink was to increase efficiency, reduce duplication, fraud and incorrect payments. Centrelink is recognised internationally as a very efficient provider. For example, its staff to customer ratio is one third of its

UK equivalent. Centrelink has returned \$826.4 million in dividends to Government from 1997-98 to 2001-02 including \$240.2 million in 2001-02. On top of that, Centrelink has had to internally fund significant work including new policy and increases in workload. The estimate of unfunded work for 2001-02 is \$178 million. With the efficiency dividend, this represents an 89% return on assets or 376% return on equity for 2001-02 (based on Budget 2001-02 estimates). In a private sector environment, not only would such unfunded work be unacceptable, but would in fact attract a premium as variations to contracts often do.

There has been significant reduction in duplication of effort through the rationalisation of office networks, the reduced need for customers providing the same information to multiple agencies etc. The re-engineering of work processes that occurred (particularly with the Employment Services Common Platform and the removal of back office function) also contributed to major staff savings. In all, the creation of Centrelink made possible a 20 per cent reduction in work levels allowing for the equivalent to a 5,000 reduction in staffing (the net change was less due to new policy initiatives announced in following budgets).

Centrelink in the purchaser-provider environment

Funding

A critical factor in any assessment of the savings derived from purchaser/provider split in organisations such as the Job Network, Centrelink, the Health Insurance Commission and others is the impact that has on administered expenses (in the Commonwealth accrual framework administered funds are largely the program funds, while departmental funds are funds available to meet the agency's operational needs). For example, Centrelink could significantly reduce its departmental expenses by reducing the time it spends on means testing customers applying for benefits. This however, would probably lead to more people getting income support to which they were not entitled. What could provide a 10% (\$170 million) saving on departmental expenses could lead to a 10% or \$4.7 billion blow out in administered expenses. Conversely, there is no direct financial incentive for Centrelink to invest its own funds into measures that would reduce administered expenses as Centrelink cannot access savings to income support outlays. Such savings are generally returned to Budget or used by the client Department to fund new policy initiatives.

Changes to the existing model to allow Centrelink to access a proportion of the administered savings would both provide the Government a rate of return on Centrelink initiatives and allow Centrelink to borrow against its own share of anticipated returns. Centrelink's share of the savings could be time limited in those instances where the main cost lies in the set up stage rather than ongoing operational costs.

Focusing on Outcomes

Centrelink has been somewhat constrained in its ability to seek opportunities to maximise effectiveness and efficiency because the purchaser/provider agreements (called Business Partnership Agreements [BPAs] or Service Level Agreements [SLAs]) have focused on the specification of inputs and processes rather than outcomes.

The new agreements being negotiated have been more focused on outputs and outcomes but still have a long way to go. The difficulty in measuring performance on some outcomes (e.g. appropriate referrals) means that although funding on outcomes is the desired endgame, it is unlikely to ever be completely achievable. This means that some services will continue to be funded on outputs or inputs with quality assurance standards, risk management processes etc used to encourage achievement of policy objectives.

The purchaser/provider model under which Centrelink operates does create some difficulties considering the kind of services that Centrelink delivers. Centrelink is a significant whole-of-government asset that requires direct government funding to maintain and meet sound policy objectives. That is, there is a 'common good' dimension that is necessary from a whole-of-government perspective but not sought by any individual client Department.

The common good relates to Centrelink's capability, that is, the reach and scope of its operations and its ability to integrate and package services for individual clients. Client Departments value this capability, but are reluctant to pay for them. For example, everyone agrees that there is benefit in Centrelink being able to bundle FaCS, DEWR and DETYA services, however, this integration falls outside the responsibility of any one of those Departments.

Another issue is the Centrelink Network. On efficiency grounds many clients would prefer not to have to pay for such an extensive network, however, the cost to smaller communities of losing Centrelink's presence is of concern to the Government. What this means is that Centrelink's service delivery objectives, as anticipated in the second reading speech of its enabling legislation (above), is greater than the sum of the service delivery objectives of client Departments.

The effort to identify costs for which none of the client Departments wants to be directly responsible, but which are necessary to maintain the kind of network the Government wants, are resource intensive and unsatisfactory for all parties. This issue is likely to grow as Centrelink works to further integrate systems and processes. It will become ever harder, more expensive and more contentious to allocate costs to particular services.

A predictable core-funding element to maintain and develop Centrelink's capability is critical to effective budgeting, planning and management. Any proposal to fragment this capability funding across portfolios would represent a risk to management and achievement of whole-of-Government objectives.

There are positive externalities by way of efficiencies and effectiveness that cannot be captured by any single purchasing Department and therefore could not be used to support a business case for their purchase of particular services from Centrelink. Direct Budget funding would avoid all of the problems flowing from the disparate views between clients, the need to re-balance funding between portfolios as the balance of Government social policies change and the inefficiencies that come from long, drawn out negotiations with multiple clients.

It would allow for better integrated services and for full consideration of priorities and necessary compromises rather than Centrelink patching together the results of contextually isolated negotiations.

The risk is that with no purchaser having responsibility for the whole-of-government service outcomes, Centrelink may end up under-funded and not able to achieve Government's objectives.

Centrelink as a purchaser

Centrelink contracts out services as a business solution to many of its activities. The financial constraints on Centrelink due to the need to provide special efficiency dividends to Government led the Board to direct Centrelink to systematically assess services for contracting out. Centrelink held contracts in the financial year 2000-01 (excluding consultancies) to the value of over \$1 billion (this does not represent an expense for the year but the total value of contracts current during that year, some of which run over several years). This is growing. At present, fifty per cent of Centrelink's information and technology expenses go to external providers; this is anticipated to grow to seventy per cent over time.

A significant financial benefit from outsourcing comes from the provider being able to achieve major economies through bulk purchasing. The size of Centrelink means that it already achieves large economies of scale. For example Centrelink already pays the lowest prices achieved in Australia for many of its IT hardware.

The Limits of Non-Government Provision

There are limitations on whether Centrelink services could be contracted out apart from financial cost/benefit considerations. There are a number of principles that the Government has determined as being fundamental and not subject to compromise. The most significant are:

- *Delegation.* Centrelink has delegation to make payments totalling \$51.7 billion (2001-02). These payments are largely accessed through Special Appropriation bills⁴. The open-ended nature of special appropriations could leave the Commonwealth open to significant risk. In order to manage this risk, the Commonwealth has put in place a whole framework to hold Centrelink accountable. One of the major cost savings when outsourcing lies with the much reduced accountability framework under which non-government organisations function. In this instance, the Government would be unlikely to accept any diminution of accountability. To maintain this level of accountability in an arms length relationship would most probably be more, rather than, less expensive.
- *The reliability of the service.* It is fundamental that citizens with a reliance on Centrelink programs must access their income support when it is due. Offices cannot close down; the system cannot fall over. Penalty clauses against contractors do not provide sufficient insurance. An inkling of this potential risk was identified by the Commonwealth Auditor-General:

⁴ Special Appropriations are uncapped appropriations – payments are made to all eligible people even when the total paid exceeds Budget estimates. There is no need to go back to Parliament for additional funds (unlike Annual Appropriations which represent a fixed amount agreed by Parliament for the Budget year and which cannot be exceeded without the passage of another appropriation bill through Parliament).

[T]he Job Network ... provides a good example of the inherent difficulties in applying a purely commercial model to the contracting out of community services. With media reports suggesting a number of the original 31 service providers were experiencing financial difficulties, pressure was placed on the Government for additional funding and changes in the commercial relationship. This situation emphasises the need to recognise the complex set of objectives and stakeholder views which must be taken into account when we make decisions in the public sector. For example, questions have been asked as to whether sufficient consideration was given to the impact of a service provider's closure on unemployed clients.⁵

- *The protection of information privacy.* The sensitivity of the information held in Centrelink databases is such that it would be unlikely that the community would accept its management by a private organisation. Centrelink's information is even more sensitive than both the Australian Tax Office and the Health Insurance Commission combined. It involves detailed information on citizen's financial affairs and many aspects of their personal lives necessary to inform decisions about their entitlements.
 - This is compounded by Centrelink's statutory role as the Commonwealth's data matching agency to ensure compliance with other sensitive databases, in particular those held by the Australian Tax Office, the Australian Securities and Investment Commission, the Department of Immigration and Multicultural Affairs, the Health Insurance Commission, police agencies and the client departments. Centrelink's compliance activity in 2000-01 raised \$325 million debt and also reduced future expenses by \$40 million per fortnight (over \$1 billion annually) through identifying payments that should be reduced.
 - Centrelink contributed to the Senate Select Committee on Information Technologies inquiry "Cookie Monsters? Privacy in the Information Society" which was completed in November 2000. Centrelink's privacy management regime and processes cover 4 pages of the 180 page Report. In conclusion, the committee "commended Centrelink on the measures that it has instituted to protect the personal records of millions of Australians." (p. 86 of report)
- *As a national service network,* Centrelink pursues the Government's objective to provide equity of access to all citizens. Only such a network can provide such a range and level of service throughout the country even where it is not commercially viable. Only such a network can provide an integration of phone, mail, on-line and face-to-face access.
- *A national integrated agency is necessary to maintain both efficiency and effectiveness:*
 - First there is an equity issue. It is critical that like people in like circumstances receive similar support and are neither disadvantaged nor allowed to 'service shop'.

⁵ P.J. Barrett (AM), Auditor-General for Australia, *Balancing Accountability and Efficiency in a More Competitive Public Sector Environment*, 25/5/2000, Government in Excellence Summit – Reinventing Government – A Manifesto for Achieving Excellence and Managing for Results, Singapore

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- It is critical that the service delivery agency is national in reach. The relationship with customers is very often long term and needs to be informed by the history of customers as they move around and go through a series of life events. In order to provide truly personalised service that history must be available in an integrated manner.
 - Furthermore, a simple change, such as a change of address, can have several implications such as on Rent Assistance, family status (signal break up family, moving out of home etc), employability (local labour market conditions) etc. Only a national, integrated provider can make all the connections to both meet need and mitigate risk.
 - People with multiple barriers and needs are less likely to have those met if service delivery is disaggregated between several providers.
 - The cost of losing both the economies of scope and scale would be substantial.
- *Maintaining the flexibility to meet Government's changing needs.* Every budget there is a significant number of initiatives that impact on Centrelink, many of which Centrelink has been required to absorb the cost. In a contracted model the cost of variations to contracts can be significant. Furthermore Centrelink provides advice on service delivery options and it is important that Centrelink be able to participate in confidential Government discussions.
 - *Responsive to emergencies.* Centrelink is often called upon to take on ad hoc task such as providing emergency payments to people in regions hit by natural disasters (for example victims of floods, Ansett and HIH staff and customers etc). When such events occur, there is no time for negotiating contracts but only for immediate response. Only an organisation like Centrelink has the capability to respond to such a diversity of emergencies.
 - *Maintaining the independence of assessments and referrals* so as to avoid conflicts of interest (in cases where this can be done by an external provider Centrelink will contract out - medical assessments for example). The risk of a conflict of interest would be increased if the agency responsible for assessing need were also providing the services to meet the identified needs⁶. It is highly likely that the number of people identified as having higher needs would grow. This would be very difficult to contain as the ratio of higher to lower needs customers changes in time and place depending on many factors and in particular to local and national economic conditions. It is important to non-government organisations that customers view the referral agency as fair and this would be compromised if the referral agency also competed for some of those referrals.

Around the world, social security payments and refunds are *provided by government agencies* because these issues have not been solved.

⁶ To paraphrase George Bernard Shaw in the preface to his play 'The Doctor's Dilemma', "It is of concern that the person charged with determining whether your leg needs to be amputated is the person who benefits from amputating your leg."

Independence

This question of independent referral becomes more critical with the advent of the Australians Working Together initiative that will broaden the Government's objective from purely economic participation to the acknowledgement of the value of social participation:

- The objective of the JN is not to increase the number of jobs, which it is not designed to do. It is about improving the efficiency of the labour market so that as many vacancies are filled as is possible. It is also about maintaining individuals' connection with work, even if for some only intermittently. Occasional employment helps keep people engaged in the community even if it is of only marginal financial benefit. This helps achieve Government's aim to assist people participate both economically and socially.
- The benefit of social participation makes conceptual sense. A person who is well integrated in their community is far more likely to gain the support of that community.
 - However, to determine whether any intervention achieves true social participation is difficult to determine. To put a financial value of the benefit to a particular individual is impossible (within acceptable funding limits). To put a value on something is synonymous with setting a price. We do know that social participation is a worthwhile objective but we do not have a method for setting price or determining achievement, we do not know enough to support an outcome based funding model.
- If this objective cannot be delivered by an outcome based funding model, output funding is the next best approach. This emphasises the need for an independent referral agency. The agency that generates the referrals that determine the outputs to be applied cannot be the same as the agency funded for providing the outputs without leaving the system open to abuse.

The Commercial Imperative

These principles point to the complexity of the environment under which Centrelink operates. This is why Centrelink, although managed in a business like manner, cannot be managed in a commercial manner. Although the need for commercial enterprises to act as good corporate citizens has become widely acknowledged, the bottom line for a commercial enterprise is still the bottom line. Any social and community responsibility exercised by a commercial enterprise must be informed by its financial effect. For Centrelink, its commercial objectives are subservient to its primary responsibilities to the community.

Limitations of current arrangements

Locations with weak labour markets or lack of services

There is a real difficulty for the Government in providing labour market assistance where there is little labour market. Government cannot turn its back on citizens and say that as there are no job prospects for people in this area and that no service should be provided.

Indeed, with the Australians Working Together initiatives, the Government is putting greater emphasis on social participation for those who face major barriers to employment, and a thin labour market is just such a barrier. Social participation, apart from helping individuals develop useful skills and making useful contacts, helps strengthen communities. Stronger communities in turn tend to have better economic prospects.

There is a similar issue with where there are no services, or at least none available in reasonable time. A number of the more disadvantaged customers do not have access to appropriate services. This is particularly true in rural and remote Australia where the nearest JNM may be too far away for customers to access or for the provider to give effective support. Access is also difficult for some customers in larger centres if they have special needs as some JNMs may focus almost mostly on the most job ready. This leaves people with significant barriers to employment with little in the way of relevant services and therefore highly likely to become or remain long-term dependent on welfare.

Centrelink should be judged on the quality of its referrals, but only where there are adequate services where customers can be referred. The solution may be, in areas with little labour market activity, to allow non-traditional providers to come forward with possible solutions to address particular problems within the available resources. In more disadvantaged communities⁷, the answer may be for the funds to be used at the community level, rather than the current model of finding individual solutions for each customer. This would allow communities to use whatever resources are available to assist job seekers.

Efficacy of the Job Search Classification Instrument

The Limits of the Index

The Job Search Classification Instrument (JSCI) is a streaming tool used to classify customers into one of three categories based on customers' job readiness. As directed by DEWR, the questions must be asked verbatim. The Productivity Commission may wish to consider whether this lack of flexibility may impact on Centrelink's ability to profile and customise service responses accordingly. It may also impact on Centrelink's ability to encourage disadvantaged job seekers to understand the question itself, the purpose of the question and reduces the likelihood that barriers to social and economic participation will be identified.

JSCI is a self-disclosure tool. Experienced Centrelink officers can readily identify certain barriers that are not disclosed by the job seeker, however there is no opportunity for officers to record these findings. The result is JNMs seeking to uncover barriers that may have already been identified by Centrelink.

A problem with self-disclosure is non-disclosure. For example a disability may be pre-recorded on the system but the customer may choose not to answer the question resulting in incorrect referrals. Another example is a job seeker with clear substance abuse problems who chooses not to answer the question honestly or does not recognise their lifestyle as a barrier to employment or as an addiction.

⁷ Interim Report of the Reference Group on Welfare Reform, p. 7, March 2000.

For some customers with impaired intellectual abilities or language difficulties the wording of the question can cause difficulties. The answer would be to give Centrelink officers the flexibility to vary the wording in these cases and the time to investigate further when it is clear that there is a high risk that the answer given does not reflect that person's reality.

Another problem in identifying barriers to employment is the job seeker's expected self-assessment of their literacy and numeracy barriers. The question asks how they rate their literacy and numeracy and they are given a choice of good, fair or need help. However, the job seeker is not given a basis for comparison. Their literacy and numeracy skills may be adequate for their current situation (home life or caring duties) that is often reflected in their response, but would not meet the needs of most employers⁸. If the job seeker hasn't been previously exposed to a job market or participated in CDEP where literacy and numeracy are not a real requirement then it would be difficult for them to assess their own skills for true employment purposes.

Servicing issues

The JSCI is not as effective as it could be when asked at initial new claim interview. Many job seekers are visibly stressed about their qualification for payment. They see assessment of barriers for employment purposes as secondary or not relevant. At new claim interview customers wary of identifying barriers, and will answer the questions attempting to guess what they think the Centrelink officer wants to hear rather than reveal their real circumstances.

It is also well documented that 34% of job seekers find work in the first three months. The associated work with a JSCI is often not useful for these customers.

By definition new job seekers have had a major change in their lives that can lead to further instability and change, needing further re-adjustment. They can be quite positive about their opportunities to find work and haven't felt the full impact of their change in financial circumstances. An example of this is a job seeker who after a couple of weeks on a Newstart payment finds his current living arrangements financially unviable. The customer's housing difficulty would not have been identified as a barrier at the time of assessment.

Possible Solutions

Centrelink and DEWR staff are working together to see what flexibilities could be adopted without compromising equity.

Centrelink is currently developing more sensitive profiling tools that will enable a more sophisticated assessment of customers' barriers to employment and social participation. This could provide a more accurate tool to base referrals upon.

It may be useful to consider whether the assessment interview should be a completely separate interview to a new claim interview so that the job seeker's life and income support needs are stabilised before barriers are assessed. There is a trade-off here in terms of ensuring timely referral to JNMs. Early intervention for people with high

⁸ Even if no literacy and numeracy skills are required to perform the job, employers will require certain levels of skill for occupational health and safety reasons – at the very least it is critical that employees understand warning and hazard signs.

needs is very important and there would be no intervention if the need is not identified.

Other possible approaches would be to identify people at risk and schedule them for reassessment within a certain time (say two to three months), or to only assess those with clear problems up front, with the rest some time later (say three months when 34 per cent will have found employment thus returning significant savings). The opposite approach would be to identify those likely to be only short term and book them for a JSCI three months after first registration.

Another simple adjustment to current practice would be to make people unemployed for twelve months automatically eligible for Intensive Assistance. Currently there are some 30,000 customers who have been unemployed for over twelve months but still do not achieve a high enough score to warrant referral to Intensive Assistance. These may be people suffering from mental illness, unbeknown to Centrelink, or may simply be not interested in work. Whatever the reason, a more intensive intervention is undoubtedly necessary.

These proposals could be tested, separately or in combination, to find the best mix.

Breaching

How it Works

Centrelink is responsible for applying sanctions to customers who do not meet their obligations such as training, looking for work, attending interviews and seminars and providing certain information to Centrelink. To ensure compliance a regime of sanctions is imposed. These sanctions (breaches) entail reducing payments for a period of time, with a greater cut in payments with each subsequent breach.

There has been general concern with the growth in breach rates over the last few years (from 120,000 in 97-98 to 348,000 in 99-00). This is in part due to Centrelink applying the policy more consistently with client Department guidelines. Although much of the recent focus has been on how people with little ability to comply are being treated harshly, it should be remembered that there is a significant number of people who simply refuse or do not bother complying. There are also people who do not comply because they have a day job and therefore do not have the time to meet their obligations. These form a significant minority.

Nonetheless, there is anecdotal evidence that some vulnerable people are being breached and that this may exacerbate their condition. People particularly at risk are: homelessness, mental illness, low literacy, substance abuse etc.

There are two kinds of breaches. Administrative breaches include not providing Centrelink with necessary information or failing to come to an interview without sufficient reason. Activity breaches involve failing to meet activities proscribed in activity agreements including those prepared by JNMs and Community Work Coordinators (CWCs). In these cases, the JNM or CWC will recommend that Centrelink breach the individual.

Centrelink does not assess people to the same degree that JNMs and CWCs do with their longer term and closer relationships with customers. Centrelink does use the JSCI. The JSCI is not an assessment tool but a streaming (classification) tool. It is used to classify very large numbers of people into three groups. It allows for a quick triage, not for an in-depth analysis of a person's difficulties.

Centrelink's Response

Centrelink has a responsibility for these vulnerable people and to better meet that responsibility Centrelink is developing a number of options.

Job Network Issues

These initiatives, and others such as the Streamlined Job Network Access and Referral Process Pilots (discussed below), should result in marked improvements. However, a major issue remains, that 54 per cent of recommendations to breach from JNMs and CWCs are either not imposed by Centrelink or revoked. If nothing else, this is very inefficient. Some JNMs may be overly strict in recommending that someone be breached and may not try as hard as they could contact the customer.

An issue here lies with the contract specifications JNMs have with DEWR and points to the difficulty in managing complex relationships through contracts. A JNM can send two letters to the address they have, even knowing that the customer has a history of frequently changing address. That is their only required contact under their contracts. Centrelink will often overturn these breaches following more rigorous efforts to contact the customer. There is no onus on the JN to do this and are meeting their contractual obligations when raising the breach.

Under the current regime the JNMs do not have to provide sufficient information for Centrelink to make a determination on the breach. Centrelink's view is that this is wrong, as no breach recommendation should be made unless there is, prima facie, sufficient evidence to support the breach. This behaviour represents a shift in costs as it leaves it to Centrelink to make contact with the customer and check their reasons for non-compliance.

This is not to say that this is a feature of all JNMs. Indeed the very variability in ratios of breach recommendations to customer base between providers is of concern as it indicates widely different approaches.

The result is that many unsustainable breach recommendations are made by the very organisations that, because of their assessment role, are best placed to identify people at risk. At the very least, it is important that JNMs provide Centrelink with whatever information on barriers that they have identified to the customer's ability to comply.

One problem is that JNMs are often unaware that the customer has been breached before. This knowledge would otherwise inform their approach to particular breach recommendations.

Possible Solutions

Processes need to be put in place to ensure that JNMs have sufficient training to understand the procedures and, once understood, that they follow them. Such new procedures have been agreed with DEWR and will soon be implemented. These include Centrelink providing two training sessions per year for JNM staff and Centrelink will reinforce the message at regular liaison meetings with JNMs.

One approach would be for Centrelink to bill for breaches that are not imposed or are revoked. As there is an incentive for JNMs to exit difficult customers, this would not be a disincentive to recommend breaching. It would be an incentive for the JNMs to gather the evidence and assess the case before making a recommendation and to pass

all the evidence to Centrelink. At worst it would reimburse the government for the cost shift.

As discussed above, Minister Vanstone will make an announcement in the new year that will address many of the current problems.

It must be remembered that most of the possible improvements to compliance will have a cost to implement.

Delays in referrals to Job Network

Problem

There is a strong incentive for JNMs to maintain their capacity as high as their contract allows. Eighty per cent of customers do not make their own choice of JNM. Therefore, in order to attract customers, JNMs rely on the automated referral system that will give precedence to under used providers to ensure each provider has sufficient business. JNMs therefore lobby DEWR and Centrelink when they are working under capacity.

The automated system removes any incentive for JNMs to provide information to customers or otherwise market their services. Without information there is little reason for customers to choose a provider themselves. Customers have ten days to nominate a provider before the system makes an automatic choice for them. This means that a month can easily pass before the job seeker is first interviewed by the JNM and that delay does nothing to get people back into work quickly.

Possible Solution

A solution being trialled (Streamlined JN Access and Referral Process Pilot) is to make appointments for customers to JNMs at the introductory interviews that they must attend. When a customer nominates a provider a Centrelink officer will attempt to make an appointment there and then with the JNM that day or soon after.

It would be useful if those customers who do not choose a provider have one allocated to them there as well so that all customers go away with an appointment already made. This would remove the time that customers have to undertake some research but this is something that customers rarely do.

To allow customers to undertake research they could be allowed to change providers within a certain period of time. Customers need to be given much more information to allow them to make a valid choice. A more competitive model would encourage JNMs to provide better information.

In the trial, Centrelink staff ring the JNM. An improvement, should the trial be successful, would be to have an electronic booking system so as to expedite the process.

This approach would mean that job seekers could be guaranteed to have appointments set with JNMs at the interview.

The Way Forward

Current streaming and AWT

Current assessment and streaming processes have been found wanting. Currently, all the time customers spend with Centrelink officers is spent on assessing the individual for income support and applying the JSCI. Client Departments have realised that not enough focus has gone into more rigorous assessments, particularly of more vulnerable groups. This has led to some incorrect referrals.

The AWT initiative seeks to improve performance by reforming the streaming process (by increasing the streams from 3 to 4) and by putting on personal advisors to better assess medium to high need customers (high need customers may then be referred to JET advisors or other professional officers). Of course not all barriers to entry will be identified but it has been judged that the resources required for more in depth assessments would not be cost effective and would divert funds more usefully employed in providing services to customers.

One important limitation is that not all jobseekers will have access to personal advisors, in particular younger people who are those most likely to be breached. Nonetheless, we need to wait until personal advisors have been deployed and we get some data on where and when they are most effective before extension of their use is considered.

This initiative enhances Centrelink's the role as independent gateway to the Job Network and other service providers. AWT, with the recommendations regarding better assessment and referral, will result in customers being referred sooner and to the correct services.