The Auditor-General
Audit Report No.19 2012–13
Performance Audit

Administration of New Income Management in the Northern Territory

Department of Families, Housing, Community Services and Indigenous Affairs

Department of Human Services

Australian National Audit Office

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Canberra ACT
31 January 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Families, Housing, Community Services and Indigenous Affairs and the Department of Human Services in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament. The report is titled *Administration of New Income Management in the Northern Territory*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations

ANAO	Australian National Audit Office
DEEWR	Department of Education, Employment and Workplace Relations
DHS	Department of Human Services
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
KPI	Key Performance Indicator
NTER	Northern Territory Emergency Response
Ombudsman	Commonwealth Ombudsman
IT	Information Technology
PBS	Portfolio Budget Statements

Glossary

BasicsCard	The BasicsCard is a reusable, PIN protected card that allows customers to spend income managed funds at approved stores and businesses through the EFTPOS system.
Deductions contracts	Income Management Deductions contracts enable third party organisations to receive income managed funds via a direct deduction.
Discretionary funds	Discretionary funds refer to the portion of an Income Management customer's welfare payment that is not income managed. These funds can be spent on any goods and services including excluded goods and services.
Excluded goods and services	Excluded goods and services are defined in Section 123 TI of the *Social Security (Administration) Act 1999* and include items such as alcoholic beverages, tobacco products, pornographic material and gambling services.
Merchant contracts	Merchant contracts enable third party organisations to receive payments via the BasicsCard.
New Income Management	New Income Management refers to the Income Management scheme introduced across the Northern Territory from August 2010.
Priority needs	Priority needs are defined in Section 123 TH of the *Social Security (Administration) Act 1999* and include items such as food, clothing, housing and utilities.

Summary and Recommendations

Summary

Introduction

1. Income Management is a welfare reform measure that involves quarantining a portion of a person's welfare payments and subsequently allocating the quarantined funds towards priority needs such as food, clothing, housing and utilities. Income managed funds cannot be used to purchase excluded goods and services including alcoholic beverages, tobacco products, pornographic material and gambling services.

2. The *Social Security (Administration) Act 1999* (the Act) provides the legislative basis for all forms of Income Management and sets out the objectives of the scheme, which are centred on bringing about changes in individual and community behaviours. Among other things, the Act also defines priority needs and excluded goods and services.

Evolution of Income Management

3. In 2007, the Board of Inquiry into the Protection of Aboriginal Children from Sexual Abuse released its report—*Little Children are Sacred*. In response to the report, the Australian Government (the Government) introduced a range of measures collectively known as the Northern Territory Emergency Response (NTER). One of these measures was the introduction of compulsory Income Management in 73 prescribed communities across the Northern Territory. At that time, Income Management was described as having two primary aims:

a) to stem the flow of cash that is expended on substance abuse and gambling; and

b) to ensure funds that are provided for the welfare of children are actually expended in this way.[1]

4. In 2010, following a review and redesign of some NTER measures, Income Management was extended from the 73 prescribed communities to all welfare recipients in the Northern Territory who met new eligibility criteria—known as 'New Income Management'. Income Management is now described as 'a key tool in supporting disengaged youth, long-term welfare payment

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[1] Explanatory Memorandum, Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007, p. 5.

recipients and people assessed as vulnerable, and is aimed at encouraging engagement, participation and responsibility'.[2]

5. Income Management is also being trialled in Cape York (since July 2008) and selected communities in Western Australia (since November 2008). Income Management is increasingly becoming an important component of the Government's broader welfare reform agenda and, from 1 July 2012, the scheme was expanded to a further five trial sites in disadvantaged locations across Australia.[3]

6. There are two departments primarily involved in the delivery of Income Management. The Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) is responsible for providing policy advice and reporting on the performance of all Income Management measures. The Department of Human Services (DHS)[4] is responsible for the day-to-day service delivery of Income Management, within the policy parameters established by FaHCSIA.

New Income Management

7. There were 17 553 people on New Income Management in the Northern Territory at 30 June 2012. The Government has provided $410.5 million over six years (2009–10 to 2014–15) for the implementation and administration of New Income Management, including complementary services (such as financial counselling), and associated programs (such as the School Nutrition program).

8. Under NTER Income Management, all people on income support payments who were living within the prescribed communities were subject to the scheme. In contrast, New Income Management introduced more targeted eligibility criteria whereby income support recipients can be subject to one of three compulsory measures, namely: Child Protection; Vulnerable; or

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2 Department of Families, Housing, Community Services and Indigenous Affairs, 'Objectives of Income Management', in FaHCSIA, *Guide to Social Security Law* [Internet], FaHCSIA, 2012, available from <http://guidesacts.fahcsia.gov.au/guides_acts/ssg/ssguide-11/ssguide-11.1/ssguide-11.1.1/ssguide-11.1.1.30.html> [accessed 25 October 2012].

3 The sites are: Bankstown, New South Wales; Logan, Queensland; Rockhampton, Queensland; Playford, South Australia; and Greater Shepparton, Victoria.

4 In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. DHS delivers Centrelink services and payments to customers. Throughout this report, DHS is used instead of Centrelink.

Disengaged Youth/Long-term Welfare Payment Recipient. Further, those people not subject to compulsory Income Management can choose to participate in the scheme through a fourth, Voluntary measure. Table S1 shows the number of customers on each measure at 30 June 2012.

Table S1

Northern Territory Income Management customer numbers by measure at 30 June 2012

Measure	Number of customers	% of customers
Child Protection	51	0.3
Vulnerable	139	0.8
Disengaged Youth/Long-term Welfare Payment Recipient	13 311	75.8
Voluntary	4 052	23.1
Total	**17 553**	**100**

Source: ANAO analysis of DHS data.

9. In addition to the new eligibility criteria there are other key differences between NTER and New Income Management including:

- the opportunity for customers on the Disengaged Youth/Long-term Welfare Payment Recipient measure to be granted an exemption where they meet specific criteria; and
- the introduction of two incentive payments. The Voluntary Incentive Payment is a $250 payment to individuals for every 26 continuous weeks they remain on Voluntary Income Management. The Matched Savings Payment is a one-off payment to encourage individuals to develop a savings pattern with their discretionary funds. Eligible individuals can receive $1 for every $1 they save, up to a maximum of $500.

10. Under Income Management, between 50 to 70 per cent of a customer's fortnightly welfare payments, and all advance or lump sum payments, are set aside in an Income Management account to be spent on the priority needs of the customer and their family. In consultation with DHS, income managed customers notionally allocate their income managed funds to priority needs. The unmanaged portion of a customer's welfare payment is discretionary and the customer can spend these funds on any goods or services (including excluded goods and services). Income managed funds can be spent using one of three mechanisms:

- the BasicsCard—a magnetic strip, PIN protected card that enables customers to make purchases using the EFTPOS network;
- DHS making regular or one-off direct deduction payments, on behalf of the customer, into the bank account of an organisation or individual (for example, a payment to a community store); or
- DHS making regular or one-off payments, on behalf of the customer, via manual processes such as a cheque or credit card, to an organisation or individual (for example, a payment for travel to an airline company).

11. Stores and service providers that receive income managed funds in payment for goods or services are known as third party organisations. DHS has contractual agreements with some third party organisations. These agreements facilitate BasicsCard and direct deduction payments; support the objectives of Income Management (such as preventing the sale of excluded goods and services); and provide for the department to conduct compliance activities. DHS is also able to make manual payments to organisations not subject to contractual agreements.

12. The Government has commissioned a consortium of experts to conduct a strategic longitudinal evaluation of the implementation and effectiveness of New Income Management in the Northern Territory. The evaluation process includes a baseline study, which reflects the circumstances of individuals soon after the implementation of New Income Management, and a series of four annual reports, culminating in a final evaluation report due in December 2014.

Audit objective, criteria and scope

13. The audit objective was to assess the effectiveness of FaHCSIA and DHS' administration of New Income Management in the Northern Territory. The departments' performance was assessed against the following criteria:

- New Income Management was effectively planned and implemented;
- DHS has developed effective processes for servicing customers and managing third party organisations;
- DHS has established effective performance monitoring and reporting arrangements, which are used to improve service delivery; and
- FaHCSIA effectively monitors, evaluates and reports on the performance of Income Management.

14. Income Management has been an area of ongoing interest to Parliament and the community, and there has been both support and criticism of the policy across a broad spectrum of stakeholders. During the audit a range of stakeholders were interviewed. While the ANAO's mandate does not extend to commenting on the merits of government policy, stakeholders' views on the administration of the scheme were taken into account, where appropriate.

15. The audit scope did not include an examination of individual cases and decisions such as:

- the assessment of applications for exemptions from Income Management[5]; or
- decisions to apply Income Management based on Northern Territory Government referrals (under the child protection measure) or social worker assessments of vulnerable welfare recipients.

Overall conclusion

16. Since first being introduced in 2007 as part of the NTER measures, Income Management has evolved into a broader welfare policy. In this respect, from August 2010, Income Management was extended from the 73 prescribed communities under the NTER to all welfare recipients in the Northern Territory who met new eligibility criteria—known as 'New Income Management'.

17. FaHCSIA and DHS (the departments) effectively managed the transition from NTER Income Management to New Income Management. Consistent with one of the critical success factors set by the Government, by 31 December 2010 DHS had transitioned or exited the majority of NTER customers and commenced additional customers who became eligible under the new criteria.

18. The service delivery approach required for New Income Management is resource-intensive, differs from the day-to-day processes used for the majority of services provided by DHS, and consequently is a relatively higher cost service. For a customer living in a remote area, the departments estimate

[5] In June 2012, the Commonwealth Ombudsman released an own motion review that examined aspects of Income Management, including exemptions. Commonwealth Ombudsman, *Review of Centrelink Income Management Decisions in the Northern Territory: Financial Vulnerability Exemption and Vulnerable Welfare Payment Recipient Decisions*, Commonwealth Ombudsman, Canberra, June 2012.

that the cost of providing Income Management services is in the order of $6600 to $7900 per annum. The delivery approach adopted by DHS provides for the identification of eligible customers, the establishment of priority needs in consultation with the customer, and the payment of income managed funds to third party organisations. Consistent with the objectives of Income Management, this approach supports the primary aim of ensuring that a portion of income support and family assistance payments cannot be spent on excluded goods and services; this money is available to be spent on priority needs, including food and housing.[6]

19. Due to the practical operation of Income Management, however, the departments are limited in their ability to determine if the notional allocations towards priority needs translate to actual spending on these goods and services. For example, a customer who has notionally allocated $70 for food on their BasicsCard can use these funds to purchase any non-excluded goods or services at any store accepting the BasicsCard. In this situation, departments can only routinely track the amounts spent via the BasicsCard, rather than the actual goods and services purchased.

20. New Income Management has moved from the implementation phase and is now provided to over 17 500 people in the Northern Territory. Funding for New Income Management has been provided until June 2014 and this period offers an opportunity for DHS to address a number of administrative aspects, such as the compliance program and quality assurance framework, that would improve the overall operation of the scheme. It is also timely for the departments to determine whether specific features of New Income Management, such as exemptions and the incentive payments, are working as intended.

21. DHS conducts a compliance program for third party organisations subject to contractual arrangements. The 2011–12 results showed that compliance rates were lower than the department's desired level of 90 per cent, with 34 per cent of BasicsCard merchants reviewed (110 from 323 reviews) being found non-compliant. DHS has implemented a revised compliance program in 2012–13 to address identified process weaknesses. The revised program also presents an opportunity to better understand the reasons for non-compliance and subsequently develop mitigation strategies.

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6 Department of Families, Housing, Community Services and Indigenous Affairs, 'Objectives of Income Management', in FaHCSIA, *Guide to Social Security Law*, op. cit.

22. DHS relies on a number of IT workflows and automated functionality as a basis for its quality controls. DHS has also implemented a number of additional quality controls for specific parts of the process as issues have arisen, such as quality checks for parts of the exemption decision-making process. However, there is no overarching framework that outlines the approach to quality assurance and how the different aspects collectively address the risks. Given the different service approach that has been adopted for Income Management, and the risks associated with activities such as making manual payments on behalf of customers, there would be value in DHS assessing the merits of developing an overarching quality assurance framework to support the delivery of Income Management services.

23. The capacity for some customers to gain an exemption from Income Management is a key difference between New Income Management and the previous scheme. During 2011–12, a Commonwealth Ombudsman's review and subsequent DHS internal taskforce identified a number of significant issues with the assessment of exemption applications, particularly concerning consistency and transparency in the decision-making process.[7] DHS has since introduced a number of changes to its processes and it will be important that the department continues to monitor these changes to ensure they are addressing the issues that were identified.

24. In addition to exemptions, New Income Management has seen the introduction of the Voluntary Incentive Payment and Matched Savings Payment, with mixed success. As at 30 June 2012, 13 736 Voluntary Incentive Payments had been paid to 6006 customers, for a total of $3.4 million. By its nature, the payment is designed to encourage customers to begin and stay on the Voluntary Income Management measure. However, combined with the other operational attributes of Income Management (such as facilitating bill payments), there is a risk that the payment is also a barrier to some people moving off the scheme and becoming more self-sufficient in managing their financial affairs.

25. Take-up of the Matched Savings Payment has been significantly lower than expected, with only 18 people having received the payment at

7 The Ombudsman did not assess whether the outcome of the decision was correct or preferable, other than to the extent that the outcome may have been adversely influenced by problematic decision-making processes.

30 June 2012. This suggests that the payment is not having the intended impact on savings behaviour. There would be value in FaHCSIA and DHS reviewing the design and impact of the payments to determine how they are contributing to the objectives of Income Management, and if necessary, provide advice to the Government on options to adjust the arrangements.

26. In stating the objectives of Income Management, the Act highlights that the scheme is intended to bring about a range of changes in individual and community behaviour. As the department responsible for both policy advice and overall performance reporting, FaHCSIA has a key role in measuring the success or otherwise of Income Management in meeting its objectives. Currently, very limited information on Income Management is publicly reported, and the reporting focuses on basic metrics such as the number of people on the scheme and the amount of spending via one of three payment methods (BasicsCard). Accordingly, there is scope for FaHCSIA to improve the existing reporting arrangements by developing and reporting on a range of key performance indicators that provide insights on the effectiveness of Income Management in meeting its legislative objectives.

27. Similarly, while DHS collects an extensive amount of administrative data on Income Management, the nature of internal reporting is largely focused on specific metrics, such as customer numbers, and is not complemented by analysis of trends, key drivers, or the quality of service provision. Therefore, there is also scope for DHS to strengthen its internal monitoring and reporting arrangements by developing performance indicators that better measure the efficiency and effectiveness of Income Management service delivery.

28. The Government has commissioned a consortium of experts to conduct a strategic longitudinal evaluation of the implementation and effectiveness of New Income Management in the Northern Territory. The evaluation includes a baseline study which reflects the circumstances of individuals soon after the implementation of New Income Management, and a series of four annual reports. The findings of the evaluation, particularly the final report due in December 2014, can be expected to provide important insights on the impact of Income Management and will inform the Government's consideration of the success of the policy approach and its future direction.

29. The ANAO has made two recommendations to improve the internal and external monitoring and reporting of Income Management. The recommendations are aimed at assisting the departments and stakeholders gain a better understanding of the service delivery performance and the success or otherwise of the scheme in meeting the stated policy objectives.

Key findings

Implementing New Income Management (Chapter 2)

30. FaHCSIA and DHS worked closely together to implement New Income Management across the Northern Territory within the Government's six-month timeframe. Both departments developed project management plans that reflected their policy and service delivery responsibilities and contained project deliverables and key outcomes to support the transition of NTER customers and the engagement with new customers.

Delivering Income Management Services to Customers (Chapter 3)

31. DHS has developed processes, including system-based workflows, which support the identification, commencement and ongoing management of customers on Income Management.

32. Under New Income Management, customers on the Disengaged Youth/Long-term Welfare Recipient measure can apply for an exemption if they meet certain criteria, which vary depending on whether the person has dependent children. In 2011–12, the Ombudsman and a subsequent internal taskforce identified a number of issues with some exemption assessments, including consistency and transparency in the decision-making process, and the explanations provided to customers in letters advising that applications were unsuccessful. While DHS has made changes to its processes to address the issues, the department should continue to monitor and review the changes to ensure they are having the intended effect. Further, there would be benefit in DHS investigating whether there are any unintended barriers which either discourage particular customer groups from applying for an exemption, or affect the likelihood of their application being successful, and taking any necessary remedial action.

33. While on Income Management, and during final discussions with DHS prior to exiting the scheme, customers are provided with opportunities to both assist them to develop budgeting skills and put in place alternative arrangements post-Income Management. However, the nature of the practical operation of Income Management, such as the facilitation of bill payment arrangements, means that there is an inherent risk that instead of developing budgeting skills, customers may come to rely on DHS and choose to remain on Income Management.

34. Two financial incentive payments are offered under New Income Management. The Voluntary Incentive Payment provides an incentive for people to commence and remain on the Voluntary measure. However, the payment is also potentially a barrier to people becoming more self-sufficient in managing their financial affairs and moving off Income Management. Consistent with the overall objectives of Income Management, the Matched Savings Payment is designed to encourage people to develop a savings pattern and increase their capacity to manage their money. The much lower than anticipated take-up of this payment suggests that it is not achieving the intended result. There would be value in the departments reviewing the design and impact of both incentive payments to determine how they are contributing to the objectives of Income Management, and whether there is a need to provide advice to the Government on options to adjust the arrangements.

35. Customers may exit Income Management in some circumstances. However, this is not an explicit objective of the scheme and as a result there are no specific strategies in place to achieve this outcome. While some customers are likely to remain on Income Management indefinitely due to their personal circumstances, there are others who would benefit from a defined pathway to exit the scheme. This would be consistent with one of the overall aims of Income Management—to promote and support positive behavioural change and personal responsibility—and would contribute to lowering the relatively high costs of administering the scheme. Accordingly, there would be merit in the departments developing strategies to assist customers to exit Income Management, where appropriate.

Managing Third Party Organisations (Chapter 4)

36. A third party organisation wanting to provide goods and services to income managed customers can choose from three payment mechanisms, provided they meet the relevant eligibility criteria. Two of the mechanisms, which facilitate BasicsCard and direct deduction payments, are based on contractual arrangements that support the objectives of Income Management and provide for activities such as compliance reviews. The third mechanism relates to manual payments, which can provide a further option where the BasicsCard or direct deduction options are unsuitable. However, manual payments are not supported by the same contractual arrangements as

BasicsCard and direct deduction payments and therefore organisations receiving manual payments are not subject to terms and conditions such as compliance reviews.

37. DHS has developed a compliance program to monitor organisations' adherence to their contractual obligations. The 2011–12 results were lower than the department's desired level of 90 per cent compliance, with 66 per cent of BasicsCard merchants reviewed being found compliant. The main reasons for non-compliance by BasicsCard merchants were failing to keep receipts to demonstrate the goods and services provided, and allowing the purchase of excluded goods.

38. The 2011–12 compliance program was based on manual processes, relying on information maintained in various spreadsheets. DHS identified this approach as being a risk to the quality controls for the compliance program, and the results from the limited quality assurance process demonstrated that the approach required improvement. For the 2012–13 compliance program, DHS has implemented a system supported by automated workflows. The new approach presents DHS with the opportunity to: address previously identified process weaknesses; better identify reasons for non-compliance; and develop appropriate strategies to address compliance issues.

39. The nature of manual payments means that they are time-consuming and susceptible to human error. In addition, where a contract is not in place, additional risks exist and it can be more difficult for DHS to be assured that actions such as selling excluded goods or services and providing cash refunds have not occurred. Therefore, it is preferable to minimise the number of manual payments, particularly those paid on a regular basis.

40. DHS produces a report which identifies third party organisations that regularly receive multiple manual payments. This allows the department to more easily identify those organisations that could be eligible for one of the contractual arrangements but instead choose to receive manual payments. DHS is using this information to contact organisations and encourage them to participate in Income Management through a relevant contract. DHS could further use this information to better understand the factors that may inform an organisation's decision whether to enter into a contract and develop strategies to encourage greater take-up of the arrangements.

Monitoring and Reporting Service Delivery (Chapter 5)

41. System-based controls including workflows and automated functionality feature prominently in DHS' IT delivery design for Income Management. While these features support consistent decision-making and provide a basis for quality control, there is no overarching quality assurance framework covering all Income Management activities. With Income Management now implemented in the Northern Territory and being progressively rolled out to other locations in Australia, it is timely for DHS to consider if the current quality management processes and controls remain appropriate. In this context, there would also be benefit in assessing the merits of developing an overarching quality assurance framework to support the delivery of Income Management services.

42. The nature of the Income Management arrangements means that situations can arise where moneys are required to be returned to the Commonwealth by either a third party organisation or a customer. Between 1 July 2011 and 6 August 2012, 2832 requests for recoveries from third party organisations were actioned. Of these, 12 per cent took 30 days or more to finalise, and on 41 occasions the value of the recovery was $500 or more. In the majority of recovery cases the customer must wait until the funds have been returned before their Income Management account is re-credited.

43. As with recoveries, overpayments can potentially lead to a debt being raised against a third party organisation or a customer. The majority of overpayments that have been identified (84 per cent) are due to DHS system or processing errors. Unlike recoveries, DHS has not established guidelines or a framework to support the identification of overpayments. This increases the risk that not all overpayments are identified, or identified in a timely manner.

44. Following amendments to social security law in 2010, DHS is developing a new process for raising debts. This presents an opportunity to ensure that there is also an appropriate framework in place to identify and manage overpayments, and clarify the circumstances when an overpayment will be raised as a debt. This is particularly important given the potential impact on customers, the age of some of the identified overpayments, the underlying reasons for the overpayments and DHS' subsequent ability to raise debts.

45. DHS prepares a monthly project status report to track progress and results. While the reports provided management with useful information during the roll-out phase, the focus of the reporting has not been updated to reflect the post-implementation operating environment. As a consequence, the reporting does not provide an indication of important ongoing success factors, such as if the services being delivered are meeting customers' expectations.

46. There is also scope for DHS to improve its monitoring and reporting arrangements in order to better understand the cost-effectiveness of Income Management service delivery, which involves additional costs arising from the resource-intensive delivery model required for the scheme. To this end, the monitoring and reporting arrangements could be improved by developing performance indicators that better measure the efficiency and effectiveness of Income Management service delivery.

Monitoring and Reporting Income Management Objectives (Chapter 6)

47. As the department responsible for policy advice and reporting on all Income Management measures, FaHCSIA has developed a performance reporting framework that is outlined in its Portfolio Budget Statements (PBS) and reported in the Annual Report. The reporting framework in the PBS has a narrower focus than the objectives outlined in the Act and is measured by a single key performance indicator (KPI) relating to amounts spent via the BasicsCard.

48. The KPI is limited in its scope as it only includes spending via the BasicsCard, and does not provide a comprehensive view of whether Income Management is meeting its objectives. To provide a stronger basis for measuring the impact of New Income Management, there would be value in FaHCSIA developing and trialling additional KPIs that provide information on the effectiveness of Income Management in meeting its legislative objectives. In addition, reporting against the existing KPI could be improved by including spending relating to direct deduction and manual payments and a brief analysis of how the results relate to the achievement of the scheme's objectives.

49. New Income Management is one of a range of social policy initiatives which will have an impact on individuals and communities and is based, in part, on bringing about change in individual behaviour (including encouraging socially responsible behaviour and reducing harassment). However, measuring the effectiveness of Income Management in realising changes in the behaviour of individuals is difficult for a number of reasons, including the lack of baseline data for comparison purposes.

50. Income Management is a high-profile measure that has drawn a wide variety of stakeholder views on the merits of the policy. Creating and sustaining behavioural change is not easily measured in the short term and to that end, the Government has commissioned an external evaluation to help determine the impact of New Income Management in the Northern Territory. To date, an early implementation study and one of a series of four annual reports have been completed. While focused on Income Management in the Northern Territory, the evaluation findings, particularly the final report due in December 2014, can be expected to contain important information for measuring the overall effectiveness of Income Management as a social policy approach. Accordingly, if the evaluation is able to capture sufficiently reliable data and adequately address the key aspects of Income Management, it will inform the Government's consideration of the policy and its future direction.

Summary of agency response

51. FaHCSIA and DHS provided the following summary responses to the proposed audit report. Each department's full response is included at Appendix 1.

Department of Families, Housing, Community Services and Indigenous Affairs

> The Department agrees with Recommendation Two proposed in the report. The Department of Families, Housing, Community Services and Indigenous Affairs will continue to work with the Department of Human Services to improve the Key Performance Indicators for Income Management.

Department of Human Services

> The Department of Human Services (the department) welcomes this report and considers that implementation of its recommendation will enhance the administration of Income Management in the Northern Territory.
>
> The department agrees with Recommendation No.1 outlined in the report. The department will work collaboratively with the Department of Families, Housing, Community Services and Indigenous Affairs on developing performance indicators to improve internal monitoring and reporting on Income Management.

Recommendations

Recommendation No. 1 **Para 5.48**	To improve the internal monitoring and reporting of information on Income Management, the ANAO recommends that DHS develop performance indicators, including financial benchmarks, which provide a basis for measuring the efficiency and effectiveness of the service delivery approach. **DHS response:** Agree.
Recommendation No. 2 **Para 6.21**	To provide for a performance reporting framework which better measures the effectiveness of Income Management, the ANAO recommends that FaHCSIA: • develop and trial a range of KPIs that align with the scheme's legislative objectives; and • improve reporting against the existing KPI by including the amount of income managed funds spent across all payment types, and a brief analysis of how the results relate to the achievement of the scheme's objectives. **FaHCSIA response:** Agree.

Audit Findings

1. Introduction

This chapter provides background information on New Income Management in the Northern Territory, including the service delivery arrangements. It also outlines the audit approach and structure of the report.

Background

1.1 Income Management is a welfare reform measure that involves quarantining a portion of a person's welfare payments and subsequently allocating the quarantined funds towards priority needs such as food, clothing, housing and utilities. Income managed funds cannot be used to purchase excluded goods and services including alcoholic beverages, tobacco products, pornographic material and gambling services.[8]

Income Management and the Northern Territory Emergency Response

1.2 In 2007, the Board of Inquiry into the Protection of Aboriginal Children from Sexual Abuse released its report—*Little Children are Sacred*. In response to the report, the Australian Government (the Government) introduced a range of measures collectively known as the Northern Territory Emergency Response (NTER). One of these measures was the introduction of compulsory Income Management for persons living in 73 prescribed communities (and their associated outstations) in the Northern Territory, who were in receipt of income support and family payments.[9]

1.3 To facilitate the response, the *Social Security and Other Legislation Amendment (Welfare Payment Reform) Act 2007* provided for a number of new national welfare measures designed to help address child neglect and encourage school attendance. The explanatory memorandum supporting the legislation stated that Income Management had two primary aims:

a) to stem the flow of cash that is expended on substance abuse and gambling; and

8 Section 123TI of the *Social Security (Administration) Act 1999* defines excluded goods and services.

9 The legislation introduced as part of the NTER included provisions that suspended the *Racial Discrimination Act 1975*.

b) to ensure funds that are provided for the welfare of children are actually expended in this way.[10]

1.4 The then Minister for Families, Community Services and Indigenous Affairs further outlined that:

> Welfare is not for alcohol, drugs, pornography or gambling. It is for priority expenditures such as secure housing, food, education and clothing—things that are considered a child's basic rights.[11]

New Income Management

1.5 In November 2009, the Government announced the introduction of reforms to the welfare system intended to address 'the destructive intergenerational cycle of passive welfare'.[12] The reforms included the review and redesign of some NTER measures, including Income Management. A key component of the redesign of Income Management was extending compulsory Income Management from the 73 prescribed communities under the NTER to all welfare recipients in the Northern Territory who met new eligibility criteria—known as 'New Income Management'.[13]

1.6 The Senate referred the provisions of a package of bills, including the Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009, to the Community Affairs Legislation Committee for inquiry and report by March 2010.

1.7 The inquiry received 95 submissions from a range of stakeholders, primarily from the non-government sector. Many of the concerns raised by stakeholders focused on the policy settings, including that Income Management:

- has a large component that is compulsory rather than voluntary;

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10 Explanatory Memorandum, Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007, p. 5.

11 Brough, M, 'Second Reading Speech: Social Security and Other Legislation Amendment (Welfare Payment Reform) Bill 2007' [Internet]. House of Representatives, *Debates*, 7 August 2007, available from <http://parlinfo.aph.gov.au/parlInfo/genpdf/chamber/hansardr/2007-08-07/0008/hansard_frag.pdf;fileType=application%2Fpdf> [accessed 29 October 2012], p.1.

12 Department of Families, Housing, Community Services and Indigenous Affairs, *Policy Statement: Landmark Reform to the Welfare System, Reinstatement of the Racial Discrimination Act, and Strengthening of the Northern Territory Emergency Response* [Internet]. FaHCSIA, 2009, available from <http://www.fahcsia.gov.au/sites/default/files/documents/05_2012/landmark_reform_welfare_system.pdf> [accessed 29 October 2012], p.1.

13 As part of the redesign the *Racial Discrimination Act 1975* was reinstated.

- is discriminatory as it mainly affects Indigenous people;
- stigmatises people and causes shame and embarrassment;
- will not address broader social problems affecting communities; and
- was expanded without adequate community consultation.

1.8 On 1 July 2010, legislation supporting New Income Management came into effect. The NTER Income Management measure was phased out from August 2010, and New Income Management was progressively introduced across the Northern Territory.

Legislative and policy framework

1.9 The *Social Security (Administration) Act 1999* lists the objectives of Income Management as being:

(a) to reduce immediate hardship and deprivation by ensuring that the whole or part of certain welfare payments is directed to meeting the priority needs of:

- the recipient of the welfare payment; and
- the recipient's children (if any); and
- the recipient's partner (if any); and
- any other dependants of the recipient;

(b) to ensure that recipients of certain welfare payments are given support in budgeting to meet priority needs;

(c) to reduce the amount of certain welfare payments available to be spent on alcoholic beverages, gambling, tobacco products and pornographic material;

(d) to reduce the likelihood that recipients of welfare payments will be subject to harassment and abuse in relation to their welfare payments;

(e) to encourage socially responsible behaviour, including in relation to the care and education of children;

(f) to improve the level of protection afforded to welfare recipients and their families.

1.10 Further, in a 2009 policy statement, the Government outlined that:

> … the Government believes that income management is an effective tool for supporting individuals and families reliant on welfare who are living in communities under severe social pressure. The Government considers that

> many non-indigenous welfare recipients are similarly severely disengaged and at risk of harm.
>
> Governments have a responsibility – particularly in relation to vulnerable and at risk citizens – to ensure income support payments are allocated in beneficial ways. The Government believes that the first call on welfare payments should be life essentials and the interests of children.
>
> In the Government's view the substantial benefits that can be achieved for these individuals through income management include: putting food on the table; stabilising housing; ensuring key bills are paid; helping minimise harassment; and helping people save money. In this way, income management lays the foundations for pathways to economic and social participation through helping to stabilise household budgeting that assists people to meet the basic needs of life. We recognise that these are benefits which are relevant to Indigenous people and non-Indigenous people in similar situations.[14]

Australian Government roles and responsibilities

1.11 A number of departments have a role in administering Income Management, with the primary departments being the:

- Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA)—is responsible for providing policy advice on Income Management and monitoring and reporting performance for all Income Management measures; and
- Department of Human Services (DHS)—is responsible for the day-to-day delivery of Income Management services, including managing customers and contracts with third party organisations.

1.12 The Government has provided $410.5 million over six years (including $6 million in 2014–15) for administering New Income Management in the Northern Territory. The funding includes $53.6 million over four years to deliver complementary services, such as budgeting, financial counselling and financial education; and to provide the Voluntary Incentive Payment and the Matched Savings Payment. It also includes capital funding of $4.4 million for DHS' IT systems, and to issue new BasicsCards as a consequence of the

[14] Department of Families, Housing, Community Services and Indigenous Affairs, *Policy Statement: Landmark Reform to the Welfare System, Reinstatement of the Racial Discrimination Act, and Strengthening of the Northern Territory Emergency Response*, op. cit., pp.5–6.

broadened eligibility criteria. Table 1.1 outlines the total funding provided for New Income Management from 2009–10 through to 2013–14.

Table 1.1

Income Management departmental funding

Department	2009–10 ($m)	2010–11 ($m)	2011–12 ($m)	2012–13 ($m)	2013–14 ($m)
DHS	7.7	90.8	82.0	75.7	76.2
FaHCSIA	0.7	16.3	16.9	18.3	18.9
DEEWR [A]	–	0.2	0.2	0.2	0.2
Total	**8.4**	**107.3**	**99.1**	**94.3**	**95.4**

Source: *Budget Measures 2010–11*, Budget Paper No. 2.

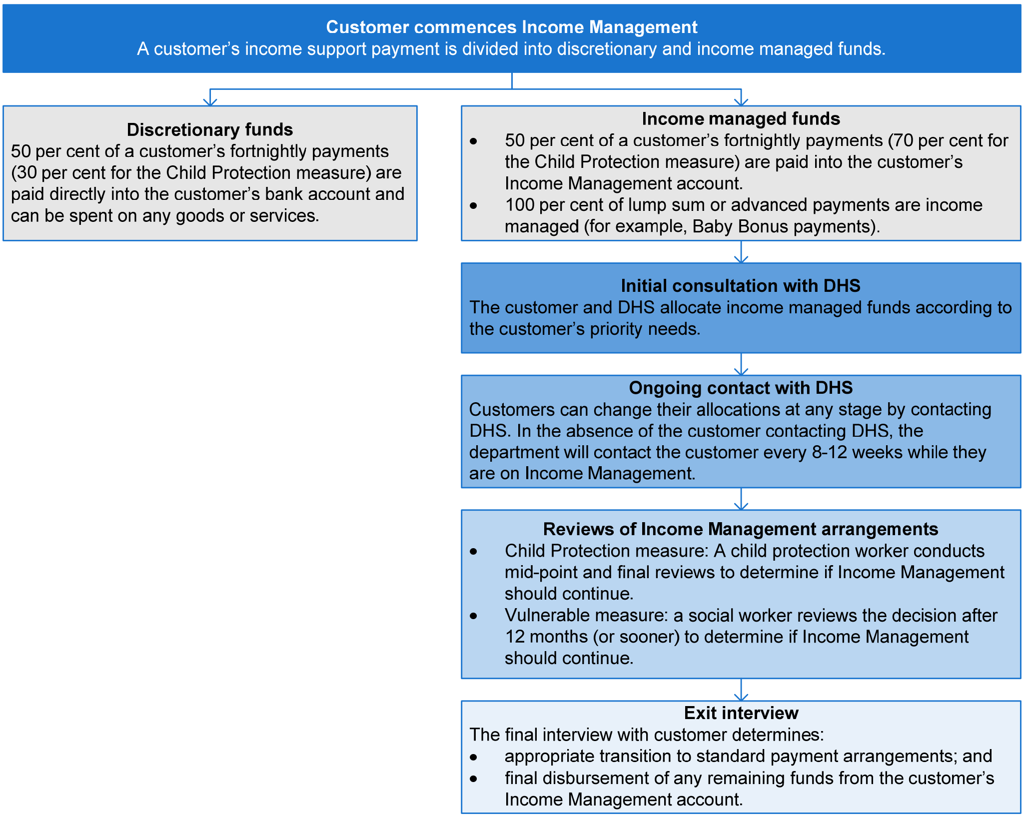
Note: [A] The Department of Education, Employment and Workplace Relations (DEEWR) is responsible for the School Nutrition program, an NTER measure which income managed funds can be allocated to.

New Income Management measures

1.13 People are identified to participate in New Income Management through four different measures: Child Protection; Vulnerable; Disengaged Youth/Long-term Welfare Payment Recipient; and Voluntary. Under Income Management, between 50 to 70 per cent of a customer's fortnightly welfare payments, and all advance or lump sum payments, are set aside in an Income Management account to be spent on the priority needs of the customer and their family. In consultation with DHS, income managed customers notionally allocate their income managed funds to priority needs. The unmanaged portion of a customer's welfare payment is discretionary and the customer can spend these funds on any goods or services (including excluded goods and services). Figure 1.1 outlines the steps involved in a customer accessing income managed services.

Figure 1.1

Income Management services for customers



Source: ANAO analysis.

1.14 Once a customer is referred to, volunteers for, or begins receiving a payment that triggers Income Management, DHS is responsible for the commencement, ongoing management and exiting[15] of the customer from the Income Management scheme. Table 1.2 outlines the Income Management measures and the corresponding payment and timing arrangements.

[15] The period a customer is on Income Management can vary depending on the measure and their circumstances, for example their ability to gain an exemption. If a customer reaches a point where Income Management is no longer required, DHS assists them to 'exit' from the scheme and revert to standard payment arrangements, where applicable.

Table 1.2

New Income Management measures

Income Management measure	Eligibility	Percentage of payments income managed	Time spent on Income Management
Child Protection measure	Referred for Income Management by child protection authorities.	70 per cent of fortnightly payments and 100 per cent of lump sum or advance payments.	Between three and 12 months as determined by a child protection worker. The child protection worker may extend the period after a review.*
Vulnerable measure	Customer assessed by DHS social worker as vulnerable or at risk.	50 per cent of fortnightly payments and 100 per cent of lump sum or advance payments.	Up to 12 months. A shorter time period may apply at the discretion of a social worker. May continue beyond 12 months at the social worker's discretion after a review has occurred.*
Disengaged Youth/Long-term Welfare Payment Recipient	People aged 15 to 24 on specified income support payments for more than three of the last six months. People aged 25 and above on specified income support payments for more than one of the last two years.*	50 per cent of fortnightly payments and 100 per cent of lump sum or advance payments.	Ongoing while customer is in receipt of a trigger payment[16], unless exemption granted.*
Voluntary measure	Voluntary and in receipt of selected income support and family assistance payments.	50 per cent of fortnightly payments and 100 per cent of lump sum or advance payments.	Minimum of 13 weeks applies. Customers can cease anytime after the 13-week period.

Source: ANAO analysis of Australian Government factsheets and Guide to Social Security Law.

Note: *Customers on these measures have review and appeal rights which can result in a person moving off Income Management.

[16] Under the Disengaged Youth/Long-term Welfare Payment Recipient measure, a person receiving one of the following payments is eligible for Income Management: Youth Allowance; NewStart Allowance; Special Benefit; Parenting Payment (Single); and Parenting Payment (Partnered).

1.15 In addition to the new eligibility criteria, other key variations between the NTER Income Management and New Income Management include:

- Requests for exemptions—New Income Management allows for exemptions to be granted where participants on the Disengaged Youth/Long-term Welfare Payment Recipient measure are able to demonstrate 'socially responsible behaviour'.[17]
- Voluntary Incentive Payment—a payment to encourage people who are not income managed to volunteer and participate for a period deemed long enough to benefit from New Income Management.
- Matched Savings Payment—an incentive payment to encourage people on New Income Management to develop a savings pattern and increase their capacity to manage their money.

Third party organisations and payment mechanisms

1.16 Stores and service providers that receive income managed funds in payment for goods or services are known as third party organisations. Provided they meet the relevant eligibility criteria, a third party organisation wanting to provide goods and services to income managed customers can choose from three payment mechanisms, namely:

- the BasicsCard—a magnetic strip, PIN protected card that enables people to make purchases using the EFTPOS network;
- direct deductions—which involve DHS making regular or one-off payments, on behalf of the customer, into the bank accounts of organisations holding an Income Management Deductions contract; and
- manual payments—which involve DHS making regular or one-off payments, on behalf of the customer, to uncontracted third party organisations using a credit card or cheque.

[17] Explanatory Memorandum, Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009, p.14.

Other areas subject to Income Management

1.17 Income Management is also being trialled in Cape York[18] (since July 2008) and selected communities in Western Australia[19] (since November 2008). Income Management is increasingly becoming an important component of the Government's broader welfare reform agenda. As part of the Government's *Building Australia's Future Workforce* package, from 1 July 2012, Income Management was also extended to welfare recipients in five new trial sites in disadvantaged locations across Australia. The five trial sites are: Bankstown, New South Wales; Logan, Queensland; Rockhampton, Queensland; Playford, South Australia; and Greater Shepparton, Victoria.

Reviews, evaluations and audits

1.18 A series of reviews and evaluations of Income Management have been completed since it was first introduced under the NTER. This has included reviews by the NTER taskforce and review board (as a component of the broader NTER), specific evaluations of Income Management in the Northern Territory and in Western Australia, and three reports by the United Nations Special Rapporteur on Indigenous People's Australian Missions (two interim reports and a final report). Income Management is also periodically reviewed in the Closing the Gap[20] reports.

Commonwealth Ombudsman's review

1.19 In June 2012, the Commonwealth Ombudsman (Ombudsman) released an own motion review that examined two areas of Income Management decisions by DHS in the Northern Territory.[21] The review focused on decisions to:

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[18] The Cape York Welfare Reform trial is a package of initiatives to support vulnerable families. It includes voluntary and compulsory money management, and making welfare payments conditional on behaviors that support the wellbeing of children.

[19] Income Management is currently operating in metropolitan Perth, Peel and the Kimberley region in Western Australia.

[20] There are two key Closing the Gap reports: Closing the Gap in the Northern Territory Monitoring Report (six-monthly); and the Prime Minister's Closing the Gap Report (yearly).

[21] Commonwealth Ombudsman, *Review of Centrelink Income Management Decisions in the Northern Territory: Financial Vulnerability Exemption and Vulnerable Welfare Payment Recipient Decisions* [Internet]. Commonwealth Ombudsman, Canberra, 2012, available from <http://www.ombudsman.gov.au/files/review_of_centrelink_income_management_decisions_nt.pdf> [accessed 29 October 2012].

- refuse to exempt people from Income Management because DHS had formed the view that they did not pass the financial vulnerability test as there had been indications of financial vulnerability in the 12 months prior to the exemption application; and
- apply Income Management to people because DHS social workers had assessed those people as being vulnerable welfare payment recipients.[22]

1.20 The own motion began in February 2011. The Ombudsman selected and reviewed a 25 per cent sample of each type of decision made between August 2010 and March 2011. In September 2011, the Ombudsman advised DHS and FaHCSIA of preliminary concerns. The Ombudsman found that:

- some of the decisions reviewed did not address all of the required legislative criteria and lacked a sound evidence base; and
- the letters designed to explain decisions were inadequate, unclear and failed to inform customers of their review rights.

1.21 In response to these concerns, DHS formed a taskforce to examine the issues. DHS reported its findings and recommendations to the Ombudsman in November 2011. While the Ombudsman commended DHS for its work, a range of issues arising from the Ombudsman's investigation were not addressed by the taskforce and the Ombudsman's report made 20 recommendations in addition to the 20 made by the taskforce.

1.22 DHS and FaHCSIA agreed to 17 of the Ombudsman's recommendations and noted the remaining three. In October 2012, DHS and FaHCSIA provided the Ombudsman with a progress report on the implementation and impact of the recommendations made by the Ombudsman and the taskforce.

ANAO audit

1.23 In 2010–11, the ANAO tabled Audit Report No. 26 *Management of the Tender Process for a Replacement BasicsCard*. The objective of the audit was to assess the effectiveness of DHS' management of the tender process for a replacement BasicsCard to support the delivery of the Income Management scheme. The audit concluded that DHS effectively managed the tender process for a replacement BasicsCard.

[22] ibid., p.1.

Evaluation framework for New Income Management, 2010–14

1.24 In May 2010, a consortium of experts from the Social Policy Research Centre, the Australian Institute of Family Studies and the Australian National University were engaged by FaHCSIA to develop an overarching framework for the evaluation of New Income Management over the period 2010–14. The final report is due in December 2014, with three interim annual reports to be provided to FaHCSIA before that time (refer to Chapter 6 for a discussion of the evaluation).

Audit approach

1.25 Income Management has been an area of ongoing interest to Parliament and the community, and there has been both support and criticism of the policy across a broad spectrum of stakeholders. In a discussion paper on the future directions of the NTER, the Government identified that:

> … there have been a number of criticisms about income management.
>
> These include:
>
> - criticism that income management is applied to all people in a community, regardless of how well they can manage their money and care for their children and families;
> - criticism that people are only able to do their shopping at certain stores;
> - problems with operation of the BasicsCard, including breakdowns of computer systems, and difficulties obtaining information about the balance on a person's BasicsCard; and
> - concerns that income management in the prescribed areas has not helped itinerant people (for example, those living in 'the long grass' on the fringes of major urban centres).[23]

1.26 Benefits of Income Management have also been identified and include that Income Management has:

> increased the funds available to welfare recipient for the necessities of life, and served to reduce the amount of money available for grog, illicit drugs and

[23] Department of Families, Housing, Community Services and Indigenous Affairs, *Future Directions for the Northern Territory Emergency Response - Discussion Paper,* FaHCSIA, Canberra, 2009, available from <http://www.fahcsia.gov.au/sites/default/files/documents/05_2012/discussion_paper.pdf.>, [accessed 29 October 2012] p.11.

gambling, and thus the level of demand sharing by those who spend their funds largely on substance abuse.[24]

1.27 During the audit a range of stakeholders were interviewed. While the ANAO's mandate does not extend to commenting on the merits of government policy, stakeholders' views on the administration of the scheme were taken into account, where appropriate.

Audit objective, criteria and scope

1.28 The audit objective was to assess the effectiveness of FaHCSIA and DHS' administration of New Income Management in the Northern Territory. The departments' performance was assessed against the following criteria:

- New Income Management was effectively planned and implemented;
- DHS has developed effective processes for servicing customers and managing third party organisations;
- DHS has established effective performance monitoring and reporting arrangements, which are used to improve service delivery; and
- FaHCSIA effectively monitors, evaluates and reports on the performance of Income Management.

1.29 The audit scope did not include an examination of individual cases and decisions such as:

- the assessment of applications for exemptions from Income Management[25]; or
- decisions to apply Income Management based on Northern Territory Government referrals (under the child protection measure) or social worker assessments of vulnerable welfare recipients.

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24 The Senate Community Affairs Legislation Committee, 'Income Management', in Senate Community Affairs Committee Secretariat, *Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009 [Provisions], Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2009 Measures) Bill 2009 [Provisions] and the Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (Restoration of Racial Discrimination Act) Bill 2009* [Internet]. The Senate, Canberra, 2010, available from <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=clac_ctte/soc_sec_welfare_reform_racial_discrim_09/report/index.htm> [accessed 29 October 2012] p.43.

25 In June 2012, the Commonwealth Ombudsman released an own motion review that examined aspects of Income Management, including exemptions. Commonwealth Ombudsman, op. cit.

1.30 The audit was conducted in accordance with the ANAO's auditing standards at a cost to the ANAO of approximately $522 000. In conducting the audit, the ANAO:

- collected and reviewed documentation from DHS and FaHCSIA, including policy documents, guidelines, procedures, operational documents and reports;
- interviewed DHS and FaHCSIA staff;
- interviewed non-government stakeholder groups; and
- analysed quantitative data from DHS' information technology systems.

Report structure

Chapter 2 **Implementing New Income Management**	Examines the 2010 transition from NTER Income Management to New Income Management.
Chapter 3 **Delivering Income Management Services to Customers**	Examines the processes in place for identifying and providing services to income managed customers, including establishing priority needs and exiting the scheme. The chapter also examines the New Income Management incentive payments.
Chapter 4 **Managing Third Party Organisations**	Examines the processes for facilitating the payment of income managed funds to third party organisations.
Chapter 5 **Monitoring and Reporting Service Delivery**	Examines DHS' processes for monitoring the delivery and performance of the New Income Management services in the Northern Territory.
Chapter 6 **Monitoring and Reporting Income Management Objectives**	Examines the performance reporting framework for Income Management established in FaHCSIA's Portfolio Budget Statements and Annual Report, and the Australian Government's evaluation of New Income Management in the Northern Territory.

2. Implementing New Income Management

This chapter examines the 2010 transition from NTER Income Management to New Income Management.

Introduction

2.1 The Government expected that the transition from NTER Income Management to New Income Management would be largely completed by 31 December 2010, with the new scheme applying to an estimated 20 000 people.[26] This included former NTER Income Management customers and new customers who became eligible under the revised criteria.

2.2 A number of departments were involved in the transition phase. Consistent with NTER Income Management, FaHCSIA took the lead policy role and DHS was responsible for the day-to-day service delivery activities. The ANAO reviewed FaHCSIA and DHS' implementation of New Income Management, in particular:

- the project management framework developed to support the transition; and
- the processes and procedures developed to support the implementation of New Income Management.

Planning the transition to New Income Management

2.3 A number of intra- and inter-agency committees were established to support and oversee the transition to New Income Management. Integral to these arrangements was the Project Board, which was formed to provide a central accountability point for the implementation of New Income Management.

2.4 The Project Board met fortnightly and included senior officers from FaHCSIA, DHS and the Department of Education, Employment and

[26] Department of Families, Housing, Community Services and Indigenous Affairs, *Policy Statement: Landmark Reform to the Welfare System, Reinstatement of the Racial Discrimination Act, and Strengthening of the Northern Territory Emergency Response*, op. cit., p.6.

Workplace Relations (DEEWR).[27] As part of its role, the Board reviewed and approved key documents such as FaHCSIA's Project Blueprint, which detailed the: overall project objective and outcomes; project governance structure including roles and responsibilities; and deliverables and milestones relevant to FaHCSIA's policy role. The Board also considered key project management tools such as the respective departments' risk registers, business process maps, implementation schedule and the approach to stakeholder engagement.

2.5 Underpinning the Project Board during the implementation phase were a number of working groups established on an 'as needed' basis. Further, an Operations Group consisting of both FaHCSIA and DHS staff was established and focused on identifying and dealing with the day-to-day, on-the-ground issues.

DHS' Project Management Plan

2.6 Separate to FaHCSIA's Project Blueprint, DHS developed a Project Management Plan to cover the service delivery approach. During the transition period DHS was required to:

- transition eligible NTER Income Management customers to a specific measure under New Income Management;
- exit NTER Income Management customers who were no longer subject to Income Management under the new scheme and who did not sign up to Voluntary Income Management;
- identify and commence new customers on New Income Management; and
- assess exemption applications.

2.7 Included in the Project Management Plan were 13 project deliverables and related primary outcomes, which covered the various aspects of DHS' role. These included the development of processes, procedures, workflows and training to support the: roll-out by 31 December 2010; assessment of exemption

27 DEEWR is responsible for the School Nutrition Program, an NTER measure which income managed funds can be allocated.

requests[28]; and delivery of new payments such as the Voluntary Incentive Payment and the Matched Savings Payment.

2.8 Further areas addressed in the Project Management Plan were: Information Technology (IT), including adjusting functionality to support delivery of the new model; communications products targeted at eligible customers; and community, customer and stakeholder engagement strategies.

Implementing New Income Management

Transitioning existing customers and identifying new customers

2.9 DHS' main activities during the roll-out of New Income Management were to transition existing NTER Income Management customers and identify new customers eligible for the measure. The implementation of New Income Management was based on a six-month progressive roll-out.

2.10 The *Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Act 2010* came into effect on 29 June 2010, and DHS commenced the roll-out of New Income Management on 9 August 2010. DHS identified four zones, based on Northern Territory shire boundaries, for the staged roll-out. Table 2.1 outlines the four zones and corresponding Northern Territory shires.

Table 2.1

Geographic zones for New Income Management roll-out

Zone	Shire boundaries
Zone 1	Barkly Shire
Zone 2	Alice Springs Municipality, McDonnell Shire, Katherine Municipality, Roper Gulf Shire and East Arnhem Shire
Zone 3	Central Desert Shire, Victoria-Daly Shire, Tiwi Island Shire, Belyuen Shire, Coomalie Shire, and West Arnhem Shire
Zone 4	Darwin Municipality and Darwin Rate Act Area, Palmerston Municipality, Litchfield Shire, Wagait Shire and any remaining undeclared areas in the Northern Territory

Source: New Income Management Model Implementation Schedule Options Paper.

[28] Prior to the introduction of New Income Management, the DHS systems were not configured to undertake this process. The quality and appropriateness of aspects of the subsequently developed workflow were examined as part the Commonwealth Ombudsman's own motion review discussed in paragraphs 1.19 to 1.22 and 3.19 to 3.23.

2.11 DHS rolled out New Income Management in each of the four zones in a largely consistent manner. As part of the roll-out, DHS held approximately 25 000 interviews (either face-to-face or by telephone) with existing NTER and new customers to identify whether they would be eligible for New Income Management.

2.12 Consistent with one of the critical success factors outlined in the Project Management Plan, by 31 December 2010, DHS had transitioned or exited the majority of NTER income managed customers and signed up newly eligible customers. Table 2.2 outlines the New Income Management customer profile at 31 December 2010.

Table 2.2

Income Management customer numbers at 31 December 2010

Customer group	Number of customers
NTER Income Management customers who were transitioned to New Income Management	14 024
New customers	1 770
NTER Income Management customers not yet transitioned to New Income Management	556
Total customers on Income Management at 31 December 2010	**16 350**
NTER Income Management customers who were no longer participating in Income Management	3 175

Source: DHS data.

Managing the transition

2.13 To support the roll-out of New Income Management, DHS' Project Management Plan identified the need to develop processes, procedures and workflows. In addition, it was important that staff training and communications to staff, customers and other stakeholders were timely and informative.

Business processes and guidelines

2.14 DHS was required to make IT and business process changes to reflect the new policy and eligibility criteria. These changes were integral to successfully transitioning and exiting NTER income managed customers, and identifying and signing-up new customers within the six-month timeframe. DHS managed the required changes to systems and processes through a series of Business Requirement Statements.

2.15 The Business Requirement Statements aimed to ensure Income Management functionality was realised in DHS IT systems. Each requirement was priority ranked with the expected date of completion also identified. The Business Requirement Statements also contained process flow diagrams to map out the new major workflows for the changes required, including system-managed auto-exemptions. Subsequent Business Requirement Statements were developed and released as gaps in the Income Management processes were identified.

2.16 To support staff in the roll-out of New Income Management, DHS developed a *New Income Management Learning Model*. The course covered a number of changes introduced under New Income Management, and complemented the separately developed, self-paced, online training modules. For the implementation and ongoing delivery of Income Management services, DHS also provided a staff helpdesk function and developed a range of guidelines (including an intranet-based repository of information, guidelines and reference material), tailored to the various roles involved in delivering the services.

2.17 DHS continues to develop staff training modules to support the delivery of Income Management services. This includes reviewing and updating existing training and guidance to reflect changes to Income Management policy and procedures.

Communication and engagement with customers and stakeholders

2.18 With New Income Management having a wider geographical reach and customer base than NTER Income Management, effective customer and stakeholder communications were a key factor influencing the success of the roll-out. DHS developed various strategies to communicate and engage with staff, customers and stakeholders across the Northern Territory. Customer and community engagement in urban areas was identified as a particular challenge for DHS as the NTER Income Management had only operated in remote areas and town camps. In response, the department developed different communication strategies tailored to urban customers and remote Indigenous customers.

2.19 For each strategy, DHS identified internal and external stakeholders, a communication aim, the key messages to be conveyed, and outlined the activities required to meet the objectives. FaHCSIA also played a role in this area and developed a complementary communication strategy around high-level strategic themes that were aimed at conveying to all stakeholders the policy rationale and the expected outcomes from the scheme.

2.20 Stakeholders interviewed for the audit advised that overall, DHS was effective in communicating the changes to Income Management through engagement with stakeholder and community groups. Stakeholders also advised, however, that broader public awareness about Income Management could have been stronger, and that a customer perception remains, particularly in urban areas, that Income Management is for Indigenous people.

Risk and issue management

2.21 In rolling out New Income Management, both FaHCSIA and DHS developed risk management plans and registers which outlined potential risks, treatment actions and proposed responses. Key risks identified by FaHCSIA and DHS are outlined in Table 2.3.

Table 2.3

Identified risks

FaHCSIA identified risks	DHS identified risks
Consultation—including: Commonwealth and Territory Government outcomes not aligning; and lack of engagement with customers and key stakeholders leading to misunderstanding of Income Management and support services.	Communication—ineffective communication and stakeholder engagement could delay project deliverables.
	Customers—insufficient processes and tools in place to ensure effective transition of customers from NTER Income Management to New Income Management in an appropriate timeframe.
Implementation—including: low/high referral numbers for particular initiatives such as child protection and money management; shortage of services such as Financial Management Support Services; lack of interest from providers including low numbers of merchants signing-up; and DHS IT systems not operational/functional by 1 July 2012.	Service delivery—effective and efficient service delivery is not provided for New Income Management.
	IT—DHS does not have the required business and IT capacity and capability to amend, implement and maintain IT systems for both NTER Income Management and New Income Management.
Evaluation—including: evaluation tender process not finalised; insufficient funding for evaluation; evaluation baseline not completed or comprehensive; and insufficient management information for stakeholders including DHS/DHS to allow accurate reporting and evaluation of New Income Management.	Policy—if policy approval is received late or changes occur during the project, ability to amend the model will be reduced.

Source: ANAO analysis and summary of FaHCSIA's and DHS' risk plan documents.

2.22 To accompany the risks, mitigation controls were also outlined. For example, DHS identified its learnings from the NTER Income Management roll-out as an existing control. The governance and communication arrangements, the issues register and the project management plan were also cited as controls.

2.23 To help manage the issues arising during and after the roll-out, an issues register was established and maintained by FaHCSIA. The issues register enabled problems to be tracked and managed, including recording which issues had been resolved and closed. While the majority of issues recorded had been resolved and indicated as closed on the register, the more complex outstanding policy issues, such as debt raising and recovery[29], are still being progressed.

Conclusion

2.24 FaHCSIA and DHS worked closely together to implement New Income Management across the Northern Territory within the Government's six-month timeframe. Both departments developed project management plans that reflected their policy and service delivery responsibilities and contained project deliverables and key outcomes to support the transition of NTER customers and the engagement with new customers. Support tools were also developed in many areas including business requirements, customer and stakeholder communication strategies, risk plans and issues registers.

[29] The monitoring and management of recoveries and overpayments is discussed in paragraphs 5.9 to 5.22.

3. Delivering Income Management Services to Customers

This chapter examines the processes in place for identifying and providing services to income managed customers, including establishing priority needs and exiting the scheme. The chapter also examines the New Income Management incentive payments.

Introduction

3.1 New Income Management is more targeted in its approach than the previous NTER scheme, which applied Income Management to all people in receipt of specific welfare payments living within a nominated geographic area. New Income Management has three compulsory measures targeted at particular customer groups (Child Protection measure, Vulnerable Welfare Payment Recipient measure and Disengaged Youth/Long-term Welfare Payment Recipient measure) and one voluntary measure.[30] A customer can only be subject to one measure at any particular time.

3.2 Once a customer is referred to, qualifies, or volunteers for Income Management, DHS is responsible for the commencement, ongoing management and exiting of customers from the scheme. Income Management has created intensive servicing requirements for staff and customers. Income managed customers are required to have increased and ongoing interactions with DHS, and the servicing needs of different customer groups can vary greatly.

3.3 The ANAO assessed if DHS had effective processes in place to:

- identify and assess customers' eligibility for Income Management;
- establish and allocate income managed funds to a customer's priority needs;
- support customers to exit Income Management; and
- administer the incentive payments available under New Income Management.

30 Refer Table 1.2 for further details on the New Income Management measures.

Identifying and assessing customer eligibility for Income Management

3.4 DHS has processes for identifying customers who are eligible for Income Management across each of the different measures. From August 2010, customers eligible for New Income Management include those people who:

- are referred by a child protection worker (Child Protection measure);
- are referred by a DHS social worker (Vulnerable measure);
- are flagged by DHS IT systems as having received income support payments for a specified period of time, (Disengaged Youth/Long-term Welfare Payment Recipient measure); or
- volunteer for Income Management (Voluntary measure).

3.5 Table 3.1 shows the number of customers on each measure at 30 June 2012.

Table 3.1

Northern Territory Income Management customer numbers by measure at 30 June 2012

Measure	Number of customers	% of customers
Child Protection	51	0.3
Vulnerable	139	0.8
Disengaged Youth/Long-term Welfare Payment Recipient	13 311	75.8
Voluntary	4 052	23.1
Total	**17 553**	**100**

Source: ANAO analysis of DHS data.

Disengaged Youth/Long-term Welfare Payment Recipient

3.6 The majority of income managed customers are subject to the Disengaged Youth/Long-term Welfare Payment Recipient measure. Customers on this measure are automatically identified as being eligible for Income Management by DHS' IT system once they have been in receipt of an income support payment for a specified time.

3.7 After being identified, the customer is advised via letter that they need to make contact with DHS to discuss how Income Management operates. Customers subject to this measure are classified based on their geographical location. Customers classified as 'urban' have 28 days to contact DHS, while customers classified as 'remote' have 56 days to make contact.

3.8 If a customer does not contact DHS within either 28 or 56 days they are automatically placed on Income Management. While automatic Income Management applies, the relevant percentage of the customer's income support and family payments is directed to their Income Management account. A customer will need to contact DHS to discuss their priority needs and allocations before they can access their Income Management account.

3.9 At 30 June 2012, there were 254 customers on automatic Income Management in the Northern Territory, with 196 of the customers having been on automatic Income Management for four weeks or less.

3.10 DHS actively monitors customers on automatic Income Management and makes additional attempts to contact those customers. If these additional attempts to contact a customer are unsuccessful, the customer's full payments are suspended until they contact DHS. At 30 June 2012, 53 customers were subject to payment suspensions.

Exemptions from Income Management

3.11 New Income Management provides pathways to evidence-based exemptions for people on the Disengaged Youth/Long-term Welfare Payment Recipient measure. The *Guide to Social Security Law* highlights that:

> It is intended that income management promote personal responsibility and positive social behaviour by providing pathways to evidence based exemptions for people who have a demonstrated record of responsible parenting, or participation in employment or study.[31]

3.12 Customers can apply for exemptions prior to commencing and/or while they are participating in Income Management.[32] Customers may also receive, in certain circumstances, an automatic exemption. Customers who are full-time students or new apprentices at the time they qualify for Income Management

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[31] Department of Families, Housing, Community Services and Indigenous Affairs, 'Overview of Exemptions from Income Management', in FaHCSIA, *Guide to Social Security Law* [Internet]. FaHCSIA, 2011, available from <http://www.fahcsia.gov.au/guides_acts/ssg/ssguide-11/ssguide-11.1/ssguide-11.1.14/ssguide-11.1.14.10.html>, [accessed 29 October 2012].

[32] Customers already participating in Income Management continue to be income managed until their exemption application is processed. Customers who have not commenced Income Management are not income managed until their exemption application is processed.

will receive an automatic exemption. If DHS' system has a customer recorded as being a full-time student or new apprentice, a letter is sent to the person advising them that they have received an exemption.

Applying and assessing applications for an exemption

3.13 Subdivision BB of the *Social Security (Administration) Act 1999* outlines the criteria that a customer must meet in order to be granted an exemption. Customers who apply for an Income Management exemption will fall into one of two categories:

- with dependent children; or
- without dependent children.

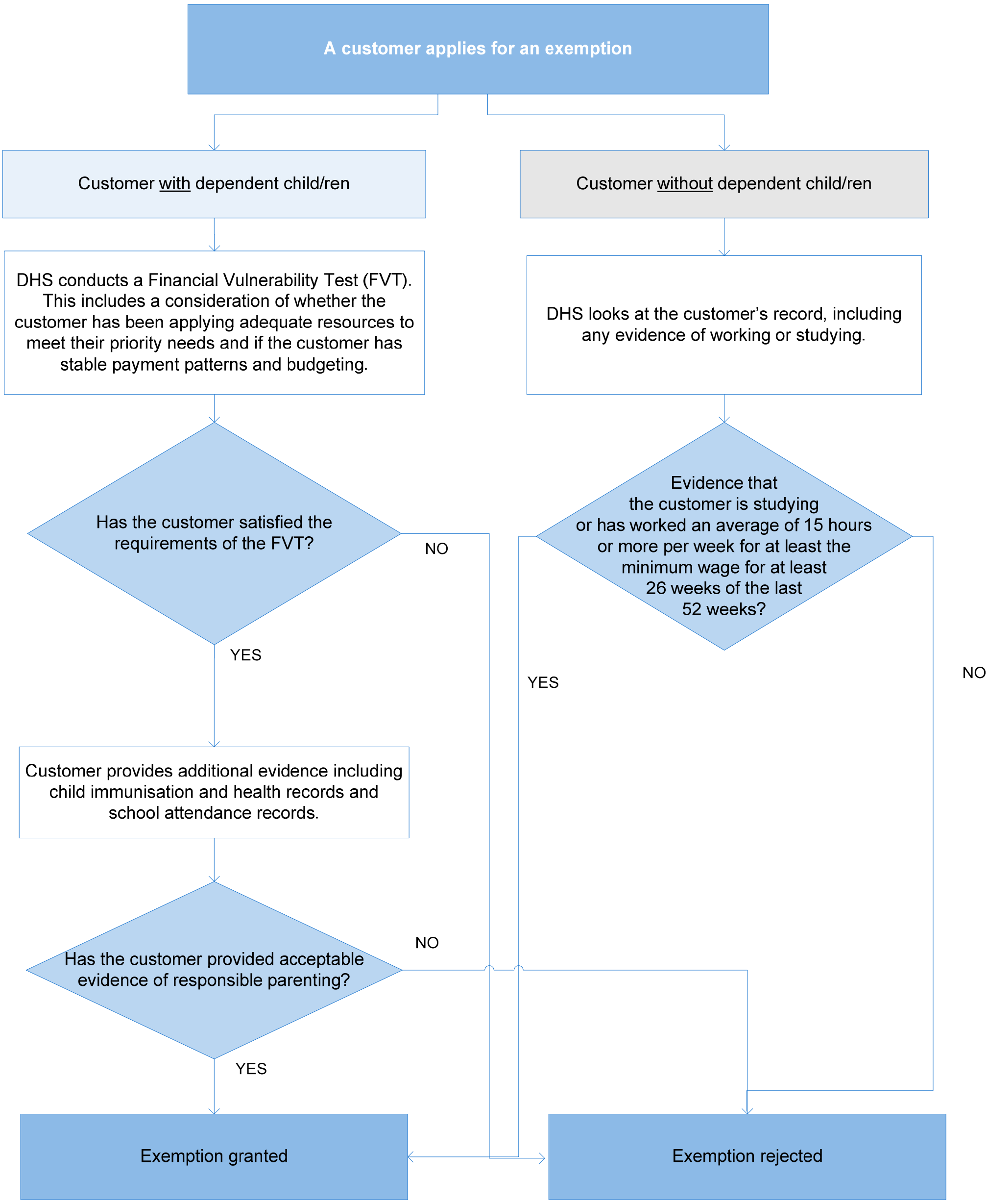
3.14 A customer with dependent children may be granted an exemption where they are assessed by DHS as not being financially vulnerable and can demonstrate responsible parenting. A customer without dependent children may be granted an exemption where they can demonstrate participation in employment or education. In particular, a customer without dependent children must either:

- be a full-time student or new apprentice; or
- during the 12-month period ending immediately before the test time, have worked for at least 15 hours per week for at least 26 weeks on wages that were at or above the relevant minimum wage.

3.15 The decision to grant an exemption is at the discretion of the DHS delegate. Income Management exemptions are assessed and processed by a specialised Darwin-based team with all customer interactions being conducted by telephone. Exemptions last for a period of 12 months and once that period expires the person is assumed to be a new customer for the purposes of Income Management. Figure 3.1 shows the exemption process for customers with and without dependent children.

Figure 3.1

Exemption process



Source: ANAO.

Exemption process

Customers with dependent children

3.16 For a customer with one or more dependent children to be granted an exemption, they must provide DHS with evidence demonstrating: that there have been no indications of financial vulnerability over the preceding 12-month period; and all dependent children either attend school or participate in an approved activity.

Financial vulnerability test

3.17 The financial vulnerability test is an assessment made by a customer service officer using information available internally to DHS or gained through conversations with the customer. A number of indicators are considered to build an overall picture of a person's financial circumstances. These include an assessment of whether a person is: able to meet their priority needs and those of their family; able to manage their money; and safe from financial exploitation in the absence of Income Management.[33]

3.18 The financial vulnerability test is based on four decision-making principles. These principles are set out in the *Social Security (Administration) (Exempt Welfare Payment Recipients – Persons with Dependent Children) (Indications of Financial Vulnerability) Principles 2010*, and further expanded in the *Guide to Social Security Law*.

3.19 As previously mentioned, in June 2012, the Commonwealth Ombudsman (the Ombudsman) published an own motion investigation which reviewed a 25 per cent sample of DHS decisions to reject exemption applications based on financial vulnerability made between August 2010 and March 2011 (refer paragraphs 1.19 to 1.22).[34] The Ombudsman's investigation raised significant concerns and found that it was not always clear what factors the customer service officer relied on, or what weighting was given to each factor, when making a decision.

3.20 In September 2011, DHS formed a taskforce to examine 167 exemption applications that were unsuccessful due to failing the financial vulnerability

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[33] Department of Families, Housing, Community Services and Indigenous Affairs, 'Principal Carer Exemptions from Income Management - Financial Vulnerability Test', in FaHCSIA, *Guide to Social Security Law* [Internet]. FaHCSIA, 2012, available from <http://www.fahcsia.gov.au/guides_acts/ssg/ssguide-11/ssguide-11.1/ssguide-11.1.14/ssguide-11.1.14.30.html> [accessed 29 October 2012].

[34] Commonwealth Ombudsman, op. cit.

test. The taskforce found that there were serious concerns around financial vulnerability decision-making and that the original decision was reasonable in only 31 per cent of cases that were examined. The taskforce made 13 recommendations around the administration of financial vulnerability exemptions, including that there was an urgent need to develop a quality framework for financial vulnerability exemption assessments.

3.21 The Ombudsman made a further seven recommendations specifically relating to financial vulnerability decisions, covering:

- documentation and record keeping of conversations with a customer seeking an exemption and any associated third party;
- the provision of training and guidance to staff including to ensure the information provided to customers is consistent with the decision-making principles; and
- the provision of reports to the Ombudsman on the implementation and impact of the recommendations made by the taskforce and the own motion review.

3.22 In response to the concerns raised by the Ombudsman and the taskforce, DHS made a number of changes to its processes and systems including implementing a quality framework for all financial vulnerability exemption assessments, and updating staff training guidance. DHS advised that, by December 2012, its systems workflow will also be updated to provide the functionality to record information supporting decisions on customer financial vulnerability and the need and/or use of an interpreter.

3.23 These changes, once fully implemented, will provide a basis to address many of the concerns that have been raised. However, given the significance of the Ombudsman's and taskforce's findings, it will be important that DHS continues to monitor and review the changes to ensure they are addressing the identified issues with financial vulnerability decision-making.

Demonstrating responsible parenting

3.24 If the customer is deemed to not be financially vulnerable, the applicant is then required to demonstrate 'responsible parenting'. The demonstration of responsible parenting is related to the age of the children and is primarily linked to educational and health-related factors. After a customer has been assessed as not being financially vulnerable, they have 28 days to provide the required supporting documentation relating to their children.

Numbers of exemptions granted and rejected

3.25 At 30 June 2012, DHS had processed a total of 6405 exemption applications. Table 3.2 shows the number of exemptions granted, rejected and cancelled.

Table 3.2

Number of exemptions granted, rejected and cancelled at 30 June 2012

Status	Number of applications	% of applications
Granted	2 418	38
Rejected	1 883	29
Cancelled*	2 104	33
Total	**6 405**	**100**

Source: ANAO analysis of DHS data for New Income Management at 30 June 2012.

Note: *An exemption may be classified as cancelled if the customer: is no longer eligible for Income Management; withdraws the application; has changed Income Management measures; or requests that the exemption be cancelled.

3.26 Exemptions are designed to target different social behaviours among different groups of customers, and therefore the exemption criteria for customers with and without dependent children are different. Of the customers who can apply for an exemption (that is, those on the Disengaged Youth/Long-term Welfare Payment Recipient measure), 42 per cent are identified as having dependants and 58 per cent do not.

3.27 One of the concerns raised by stakeholders was that customers without dependent children may not apply for an exemption because the customer perceives it as being too difficult to be successful. Of the total number of customers who have applied for an exemption, 62 per cent had dependants and 38 per cent did not. This indicates that when customers with and without dependants are compared, a relatively lower proportion of customers without dependants apply for exemptions.

3.28 There are many reasons why a lower proportion of customers without dependants may choose to apply for exemptions, including a customer's perceived chance of success or a limited understanding of how to apply for an exemption. Given the disparity in the number of applications between customers with and without dependent children, there would be merit in DHS investigating whether there are any unexpected barriers for customers without dependent children applying for exemptions and, if appropriate, implementing measures to remove or reduce any such barriers.

3.29 An analysis of DHS data indicates that once a customer applies for an exemption, a customer without dependent children is more likely to be successful than a customer with dependants. Table 3.3 provides a breakdown of the number of exemption applications that were granted and rejected for customers with and without dependent children.

Table 3.3

Exemption applications granted and rejected at 30 June 2012

Status	With dependants		Without dependants	
	Number of applications	% of applications	Number of applications	% of applications
Granted	1 578	50	840	74
Rejected	1 586	50	297	26
Total	**3 164**	**100**	**1 137**	**100**

Source: ANAO analysis of DHS data for New Income Management at 30 June 2012.

3.30 Stakeholders also raised concerns that non-Indigenous customers are more likely to be granted an exemption than Indigenous customers. Approximately 90 per cent of people on Income Management in the Northern Territory identify as being from an Aboriginal and/or Torres Strait Islander background (Indigenous). In comparison with non-Indigenous customers, those who are Indigenous are less likely to apply for an exemption and more likely to have their application rejected. The numbers for non-Indigenous and Indigenous customer exemptions are shown in Table 3.4.

Table 3.4

Non-Indigenous and Indigenous exemptions granted, rejected and cancelled at 30 June 2012

Status	Non-Indigenous		Indigenous	
	Number of applications	% of applications	Number of applications	% of applications
Granted	1 746	45	672	26
Rejected	460	12	1 423	56
Cancelled	1 652	43	452	18
Total	**3 858**	**100**	**2 547**	**100**

Source: ANAO analysis of DHS data for New Income Management at 30 June 2012.

Advising customers of the outcome: exemption letters

3.31 Letters are an important source of information used to advise customers of decisions and the reasons for those decisions. After an exemption is assessed, DHS will send a letter to the customer advising them of the outcome.

Figure 3.2

Exemption rejection letters—standard text

After careful consideration, a decision has been made to reject your claim for exemption from Income Management. This means that Income Management will continue to affect your payment arrangements.

Source: DHS exemption letter, 18 February 2011.

3.32 In July 2011, DHS engaged a company to evaluate the effectiveness of communication materials designed to support the roll-out of New Income Management. The evaluation noted that:

> Legal services stakeholders in Alice Springs and Darwin feel the letters generally fail to give Centrelink customers enough information to make a decision over Income Management, because they too often lack a because, why or how. The message implied is that the letters appear deliberately designed to make it hard for customers to get off Income Management.

3.33 The Ombudsman also found that letters sent to customers between August 2010 and March 2011 were of a poor quality as they did not adequately inform customers of the basis for the decision or explain the customer's options, including the right to have a decision reviewed. Accordingly, the Ombudsman made four recommendations aimed at improving the quality of letters.

3.34 In response to the concerns with customer letters, DHS made changes to its business processes in December 2011. Where customers have dependent children and further information is required to make the exemption decision, the department will attempt to initially contact the customer by phone. Where a customer's claim for an Income Management exemption is likely to be rejected, it is now a requirement for a letter to be sent to the customer requesting additional documentation or information to support the exemption application. In the letter, customers are advised that without the additional information, the application for an exemption will be rejected. If the customer does not provide the requested information within the set timeframe they are sent another letter advising them that the exemption has been rejected.

3.35 In June 2012, during the course of the audit, DHS made further changes to the letter template. The template now requires that each letter outline the reasons why an exemption application has been rejected and advise the customer of what they need to do.

Establishing a customer's priority needs and allocating income managed funds

3.36 Income Management allows customers, in consultation with DHS, the discretion to determine the allocation of income managed funds towards specified priority needs. This allocation is based on individual customer preference, circumstances and resultant priority needs. Income Management also prevents income managed funds being allocated to excluded goods and services. The portion of a customer's welfare payment that is not subject to Income Management is deemed to be discretionary and the customer can spend these funds on any goods or services (including excluded goods and services).

3.37 The *Guide to Social Security Law* provides a full list of the priority needs as listed in the legislation. Priority needs are allocated on an as-needed basis and may change depending on the customer's circumstances. Customers may also need to use some of their discretionary funds to meet their priority needs.

3.38 DHS has classified the following six priority needs as 'high priority needs':

- school meals[35];
- food, basic personal hygiene and basic household items;
- housing, for example rent;
- utilities, for example electricity and water;
- clothing and footwear; and
- medical expenses.

3.39 DHS uses the high priority needs as a guide in their initial discussion with customers but also considers individual circumstances. The *Guide to Social*

[35] The School Nutrition program is a breakfast and/or lunch service for school-aged children from remote communities of the Northern Territory which aims to support better school attendance and to help with learning and engagement in education.

Security Law and DHS' e-Reference guide state that all other priority items should be considered after the above priority needs are considered to be adequately covered.[36]

3.40 Once a customer has been assessed as being eligible for Income Management (and has not received an exemption if they have applied), DHS conducts an interview to explain how the scheme operates and then works with the customer to determine the initial allocation of funds between their priority needs. The priority needs discussion with the customer is guided by a standard IT system workflow. A customer's priority needs and how these needs have been met are documented using the workflow.

3.41 If there are funds remaining after all the customer's priority needs have been met, the customer can:

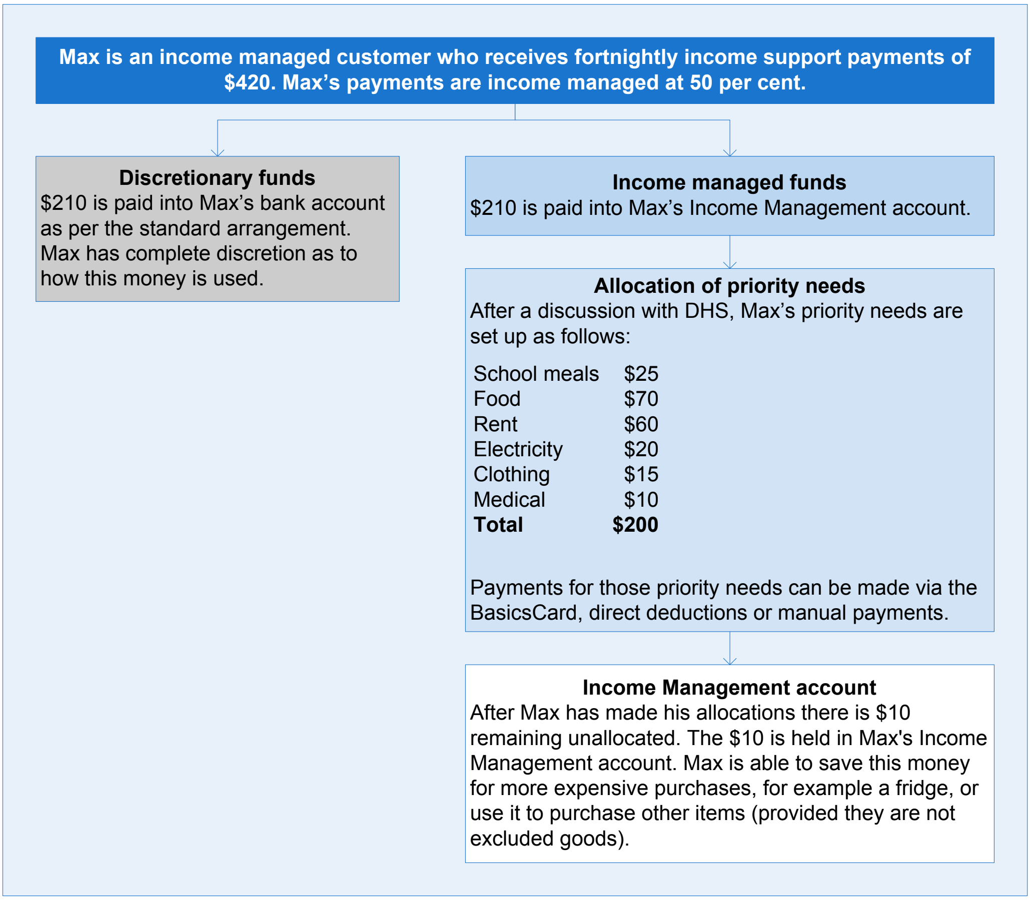
- allocate that money to the BasicsCard to purchase any non-excluded goods and/or services;
- save for more expensive items such as a fridge; or
- leave the funds in their Income Management account to be used for future priority needs.

3.42 Determining and allocating funding towards priority needs is consistent with the objectives of Income Management. Figure 3.3 provides an example of how a customer can allocate their income managed funds.

[36] Section 123TI of the *Social Security (Administration) Act 1999* outlines a list of excluded goods and services.

Figure 3.3

Example of an Income Management allocation



Source: ANAO analysis.

3.43 Customers can contact DHS at any time and change their Income Management allocations. Customers are also given support in budgeting through the initial discussion and regular reviews of their allocations. DHS records the date of each discussion with the customer and schedules follow-up interviews to review the customer's allocations at the end of each eight-week period.

The impact of paid employment on a customer's allocations

3.44 Customers who receive income support payments are able to earn other income, up to a particular level, before their income support payment is affected. Even if a customer earns above a set amount, instead of losing their income support payment it will be progressively reduced until a cut-off point is reached. For example, if a customer on NewStart Allowance earns in a fortnight:

- up to $62, the amount of allowance they receive is unaffected;
- between $62 and $250, the amount they receive is reduced by 50 cents in the dollar for every dollar earned above $62 and below $250; and
- above $250, the amount they receive is reduced by $94 plus an additional 60 cents in the dollar for every dollar earned above $250.

3.45 Small amounts of paid employment provide additional income and can also provide some customers with a way to develop workplace skills or combine employment with other obligations such as caring for children or elderly parents. Casual paid employment can be a pathway to join or re-enter the workforce. However, the complexities of managing fluctuating amounts of income support payments and the portion that is subsequently income managed, can present a disincentive to seek work.

3.46 Income generated through paid employment can reduce a customer's income support payments and subsequently the amount that is income managed. Often the hours worked and income earned will vary from week to week and this means that the amount of income support also changes. If a customer has established regular Income Management deductions, such as rent, the impact of paid employment can mean that the customer's Income Management allocations are insufficient to meet the required payments and they have to make other arrangements. Accordingly, the difficulties associated with the changing arrangements, for example a direct deduction made from a customer's Income Management account for rent, can provide a further disincentive for people who are income managed to participate in paid employment. In this respect there would be merit in departments reviewing the existing arrangements (including the exemption criteria for customers who can demonstrate budgeting skills and regular participation in casual or part time employment or study) to determine the impact of Income Management on a customer's decision to seek paid employment.

Exiting Income Management

3.47 A customer may be eligible to exit Income Management in certain circumstances; however this is not an explicit objective of the scheme. The circumstances in which a customer may exit Income Management include when:

- the person is no longer eligible (for example, the customer ceases to receive an income support payment);
- the person is granted an exemption;
- Income Management expires or ends via a review by the referring party (such as a social worker or child protection worker); or
- the person chooses to exit from the Voluntary Income Management measure.

3.48 When exiting Income Management, customers have the option to attend an exit interview. During this interview DHS and the customer may discuss the terms of the exemption period (if appropriate), the option of moving to Voluntary Income Management (if they are leaving a compulsory measure), and the disbursement of accumulated income managed funds. Discussions also cover additional assistance DHS can provide to a person in continuing to help them meet their priority needs post-exiting, particularly the use of Centrepay.[37] DHS can also refer the customer to a range of support services such as social work services and financial management support services.

3.49 At 30 June 2012, a total of 8202 people had exited the scheme since New Income Management commenced (compared to a total of 17 553 who were on Income Management). Table 3.5 shows the total number of customers on and off New Income Management by measure.

[37] Centrepay is a free service which allows customers to pay bills via regular deductions from their income support payments.

Table 3.5

Number of customers moving on and off New Income Management at 30 June 2012

Measure	On	Off
Child Protection	51	21
Vulnerable Welfare Payment Recipient	139	98
Disengaged Youth/Long-term Welfare Payment Recipient	13 311	6 517
Voluntary Income Management	4 052	1 566
Total	**17 553**	**8 202**

Source: ANAO analysis of DHS data for New Income Management at 30 June 2012.

3.50 Despite the large and increasing numbers of customers exiting Income Management, stakeholders interviewed for the audit raised concerns that there were a number of barriers to customers exiting the scheme. The concerns included customers:

- not always understanding their options for exiting Income Management, and the nature of the discussions with DHS potentially confusing and deterring customers from exiting; and
- staying on Income Management because they found it too difficult to exit, including making arrangements to pay their own rent and bills.

3.51 When a customer exits Income Management they will need to:

- arrange for an alternative way to pay their bills and expenses, such as Centrepay or direct deductions from their bank account; and
- relinquish their BasicsCard (a BasicsCard is only available to customers who are income managed).

3.52 Exiting Income Management necessarily requires a customer to become more self-sufficient with their financial management arrangements. Prior to exiting, DHS is responsible for explaining the different arrangements to customers. The nature of these discussions is often complex[38] and, combined with the new situation a customer faces, can be a disincentive to exiting Income Management. Further, the arrangements that support Income Management, including the ease of using the BasicsCard and DHS facilitating

[38] This can be a more significant issue for customers from a diverse cultural and linguistic background, including Indigenous Australians, who face English language and literacy barriers.

certain payments for customers, can create an inherent risk that instead of developing the skills required to manage their own financial affairs, customers will come to rely on services provided through Income Management and prefer to remain on the scheme.

3.53 Regardless of the nature of the arrangements post-Income Management, a proportion of customers are likely to remain on Income Management as their situation is unlikely to change, for example, some customers on age or disability support pensions. There are customers, however, that would benefit from a defined pathway to exit from Income Management. This would be consistent with one of the overall aims of Income Management—to promote and support positive behavioural change and personal responsibility. Establishing an exiting strategy for appropriate customer groups would also contribute to lowering the ongoing costs of administering Income Management, which is acknowledged by departments as being a relatively high-cost service option.

Incentive payments

3.54 In addition to new eligibility criteria, New Income Management also introduced two incentive payments:

- Voluntary Incentive Payment—a bonus payment to individuals of $250 for every 26 continuous weeks they remain on Voluntary Income Management. The payment is subject to Income Management arrangements.
- Matched Savings Payment—a one-off incentive payment to encourage individuals on Income Management to develop a savings pattern and increase their capacity to manage their money. Eligible individuals can receive $1 for every $1 they save, up to a maximum of $500. The payment is subject to Income Management arrangements.

Voluntary Incentive Payment

3.55 The Voluntary Incentive Payment was designed to provide an incentive for people to commence and remain on Voluntary Income Management. At 30 June 2012, 13 736 Voluntary Incentive Payments had been paid to 6006 customers, for a total of $3.4 million.

3.56 Stakeholders raised concerns that a financial incentive to encourage customers to begin or remain on Income Management may act as a disincentive for people to move off welfare. In a submission to the Senate

Community Affairs and Legislation Committee in 2010 (prior to the passage of the current Income Management legislation), the Australian Council of Social Services (ACOSS) stated:

> Incentives to encourage financial literacy and saving should not be conditional upon income management … Rather, the choice to have one's income managed should be made only on the basis of the direct benefit individuals see in the scheme.[39]

3.57 By its nature, the Voluntary Incentive Payment is designed to act as a mechanism that encourages people to participate in Income Management. Therefore, in conjunction with other attributes of Income Management (such as facilitating bill payment arrangements), there is a risk that the payment is also a barrier to some people moving off the scheme and becoming more self-sufficient in managing their financial affairs.

3.58 FaHCSIA advised the ANAO that the Voluntary Incentive Payment had been examined as part of the *2011 Process and Early Impacts Evaluation Report*.[40] In respect of the Voluntary Incentive Payment, the evaluation report concluded that:

> Many people appear to value the incentive payment, income management itself and the free banking offered by BasicsCard, but it is not clear which of these factors is the major drawcard for remaining on Voluntary Income Management.[41]

3.59 In drawing this conclusion, the evaluation largely relied on the views of DHS staff as to whether the incentive payment was a factor in a person's decision to participate in Voluntary Income Management. Income Management participants who were surveyed were only asked if they had received a Voluntary Incentive Payment and not whether it had been a factor in their decision to sign-up for the scheme.

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39 Australian Council of Social Services, *Submission to Senate Community Affairs Legislation Committee: Inquiry into Social Security and Other Legislation Amendment (Welfare Reform and Reinstatement of Racial Discrimination Act) Bill 2009 and related bills,* [Internet]. Parliament of Australia, 2010, available from <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=clac_ctte/soc_sec_welfare_reform_racial_discrim_09/submissions/sublist.htm> [accessed 16 September 2012].

40 Refer to Chapter 6 for a discussion of the Income Management external evaluation.

41 Social Policy Research Centre, Evaluating New Income Management in the Northern Territory: First Evaluation Report, Sydney, 2012, available from <http://www.fahcsia.gov.au/sites/default/files/documents/11_2012/nim_first_evaluation_report.pdf> [accessed 30 November 2012], p. 265.

3.60 Further, the evaluation report did not directly address whether the incentive payment was a barrier to people moving off Income Management. There would be merit in FaHCSIA reviewing the methodology for future evaluation reports to determine if additional questions could be included to provide insights on the impact of the Voluntary Incentive Payment on a person's decision to participate in and/or exit Voluntary Income Management.

Matched Savings Payment

3.61 To receive the Matched Savings Payment a person must:

- be on one of the compulsory measures;
- complete an approved money management course;
- maintain a pattern of savings from their discretionary funds for 13 weeks or longer after registering for an approved course; and
- not have previously received a Matched Savings Payment.

3.62 An approved money management course covers topics including: budgeting; money planning; savings and spending; goal setting; an introduction to banking; credit and credit cards; debt; the cost of credit; money loans; and rights and responsibilities. Courses are free of charge and aim to help participants develop an understanding of how to manage their money, plan for the future and find out what services are available to them.

3.63 At 30 June 2012, 18 people had received a Matched Savings Payment and one application had been rejected. The amounts of Matched Saving Payments made ranged from $388 to $500, with 15 people receiving the maximum amount of $500.

3.64 In planning for the implementation of New Income Management it was estimated that approximately 10 per cent of income managed customers would make a claim for a Matched Savings Payment in 2010–11, with 15 per cent applying in 2011–12, and 10 per cent from 2012–13 onwards. The experience has been that significantly less than one per cent of eligible customers have applied for and received a Matched Saving Payment.

3.65 Stakeholders raised a number of concerns relating to the eligibility criteria to qualify for the Matched Saving Payment, including:

- people on low incomes have limited capacity to save money while meeting everyday living expenses;
- accessing a money management course, especially for people in remote locations, is difficult; and
- even if a person has completed a money management course, the requirement to save the money from their discretionary funds outside of their Income Management account is often difficult.

3.66 The *2011 Process and Early Impacts Evaluation Report* indicated that the low take-up of the Matched Savings Payment was the result of a number of factors, including:

- low numbers of people completing approved money management courses due to difficulties with the referral process; the level of course material (too high-level for many in remote areas and too low-level for some in cities); and the course material being pitched at Indigenous customers and not seen as being accessible for non-Indigenous customers, including non-English speaking migrants;
- the difficulty in saving while living on a low income and having to save out of discretionary funds (non-income managed money);
- the need to have a bank account in which to deposit savings; and
- subjecting Matched Savings Payments to Income Management is seen by many as insulting.

3.67 The Matched Saving Payment is intended to encourage individuals on Income Management to develop a savings pattern and increase their capacity to manage their money, which is consistent with the broader objectives of Income Management. In light of the much lower than anticipated take-up of the payment (which suggests that it is not having the intended impact), and the disincentives to take-up the payment identified in the evaluation, there would be merit in FaHCSIA further investigating these factors to determine if changes can be made to address any identified shortcomings.

Conclusion

3.68 DHS has developed processes, including system-based workflows, which support the identification, commencement and ongoing management of customers on Income Management.

3.69 Under New Income Management, customers on the Disengaged Youth/Long-term Welfare Recipient measure can apply for an exemption if they meet certain criteria, which vary depending on whether the person has dependent children. In 2011–12, the Ombudsman and a subsequent internal taskforce identified a number of issues with some of DHS' exemption processes, including transparency and consistency in the decision-making processes, and the explanations provided to customers in letters advising that applications were unsuccessful. While DHS has made changes to its processes to address the issues, the department should continue to monitor and review the changes to ensure they are having the intended impact. Further, there would be benefit in DHS investigating whether there are any unintended barriers which either discourage particular customer groups from applying for an exemption, or affect the likelihood of their application being successful, and taking any necessary remedial action.

3.70 While on Income Management, and during final discussions with DHS prior to exiting the scheme, customers are provided with opportunities to both assist them to develop budgeting skills and put in place alternative arrangements post-Income Management. However, the nature of the practical operation of Income Management, such as the facilitation of bill payment arrangements, means that there is an inherent risk that instead of developing budgeting skills, customers may come to rely on DHS and choose to remain on Income Management.

3.71 Two financial incentive payments are offered under New Income Management. The Voluntary Incentive Payment provides an incentive for people to commence and remain on the Voluntary measure. However, the payment is also potentially a barrier to people becoming more self-sufficient in managing their financial affairs and moving off Income Management. Consistent with the overall objectives of Income Management, the Matched Savings Payment is designed to encourage people to develop a savings pattern and increase their capacity to manage their money. The much lower than anticipated take-up of this payment suggests that it is not achieving the intended result. There would be value in the departments reviewing the design and impact of both incentive payments to determine how they are contributing to the objectives of Income Management, and whether there is a need to provide advice to the Government on options to adjust the arrangements.

3.72 Customers may exit Income Management in some circumstances. However, this is not an explicit objective of the scheme and as a result there are no specific strategies in place to achieve this outcome. While some customers are likely to remain on Income Management indefinitely due to their personal circumstances, there are others who would benefit from a defined pathway to exit the scheme. This would be consistent with one of the overall aims of Income Management—to promote and support positive behavioural change and personal responsibility—and would contribute to lowering the relatively high costs of administering the scheme. Accordingly, there would be merit in departments developing strategies to assist customers to exit Income Management, where appropriate.

4. Managing Third Party Organisations

This chapter examines the processes for facilitating the payment of income managed funds to third party organisations.

Introduction

4.1 Stores and service providers that receive income managed funds in payment for goods or services are known as third party organisations. Provided they meet the relevant eligibility criteria, a third party organisation wanting to provide goods and services to income managed customers can choose from three payment mechanisms, namely:

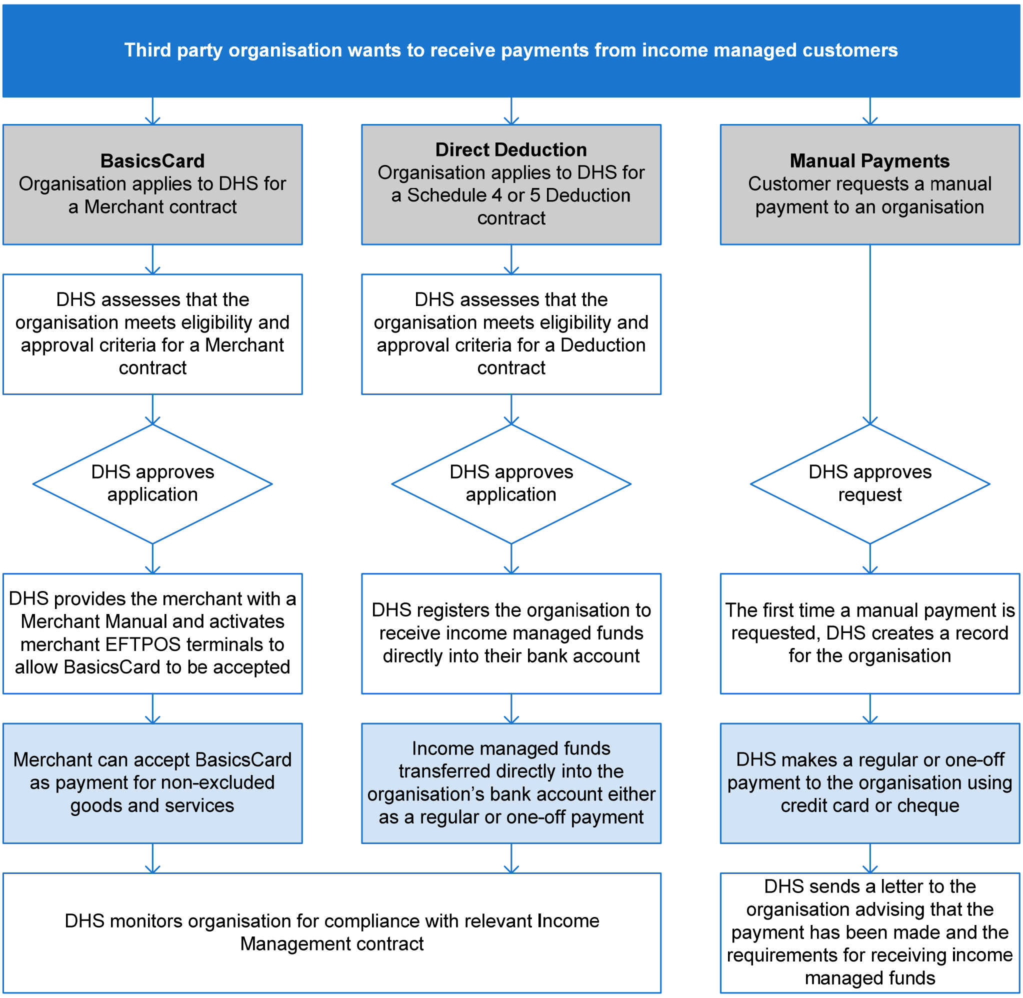
- the BasicsCard—a magnetic strip, PIN protected card that enables people to make purchases using the EFTPOS network;
- direct deductions—which involve DHS making regular or one-off payments, on behalf of the customer, into the bank accounts of organisations holding an Income Management Deductions contract; and
- manual payments—which involve DHS making regular or one-off payments, on behalf of the customer, to uncontracted third party organisations using a credit card or cheque.

4.2 The majority of Income Management payments are made via the BasicsCard. BasicsCard merchants range from large department stores and supermarkets to smaller specialist stores such as butchers. In order to be able to receive payments via the BasicsCard, the merchant must have facilities that access the EFTPOS network.

4.3 Customers can also make purchases using direct deduction and manual payments. Direct deduction arrangements are available at stores that sell a variety of goods as well as organisations providing services such as housing, electricity, water and healthcare. Manual payments are made to a wide range of parties including private landlords and airline companies for travel. The process for making payments to third party organisations using income managed funds is outlined in Figure 4.1.

Figure 4.1

Process for making payments to third party organisations using income managed funds



Source: ANAO analysis of DHS documentation.

Merchant and Deductions contracts

4.4 In order to receive income managed funds from customers using the BasicsCard or direct deduction, third party organisations are required to enter into one of two contracts with DHS, namely the:

- Merchant contract—which allows organisations to accept the BasicsCard; or

- Income Management Deductions contract (Deductions contract)—which enables organisations to receive income managed funds via direct deduction.

4.5 There are two key schedules within the Deductions contract:

- Schedule 4 to the Business Terms and Conditions, which enables organisations providing approved services such as housing, electricity, water and medical to receive income managed funds via direct deduction arrangements; and
- Schedule 5 to the Business Terms and Conditions, which enables organisations providing approved goods to receive income managed funds via direct deduction arrangements.

4.6 A series of documents form the basis of the Merchant and Deductions contracts. This documentation contains terms and conditions which include that income managed funds cannot be used to purchase excluded goods and services, and refunds cannot be made in cash. Other aspects of the contracts help protect both DHS and income managed customers against a range of issues, such as potential liabilities for money owed to the third party organisation by an income managed customer, and the misuse of a customer's personal information by the organisation.

4.7 Where possible, DHS seeks to enter into contracts with organisations because the terms and conditions provide greater security and assurance over customer funds being allocated to organisations. Contracted organisations:

- are required to complete application forms and meet specific criteria;
- must adhere to the contract terms and conditions; and
- may be subject to compliance checks.

Assessment of Merchant and Deductions contract applications

4.8 FaHCSIA and DHS have developed documentation, which is available to potential applicants, to support the management of the Merchant and Deductions contracts. These documents outline the Income Management policy, service delivery and compliance processes. The eligibility and approval criteria for Merchant and Deductions contracts are also contained in the documentation. The eligibility criteria include that the applicant's main business must be the sale of goods or services that meet the priority needs of customers; and the applicant must be able to prevent the sale of excluded goods and services.

4.9 Applications for Merchant and Deductions contracts are assessed by different areas of DHS. Merchant applications are assessed by a specialised team, and DHS has developed specific procedures for assessing Merchant applications. The procedures include a step-by-step series of questions for the officer to consider when assessing an application.

4.10 In contrast, Deductions contract applications are assessed by DHS officers who are assigned to specific geographical regions across the country and are responsible for a range of tasks relating to third party organisations. Unlike the Merchant contracts, there is no guidance document to assist officers assessing Deductions contract applications. Instead, the decision is based on the information provided in the application and, if required, a discussion with the merchant. In this respect, to assist officers and support consistency in decision-making, there would be merit in DHS adopting the approach used for Merchant contracts and developing procedural guidance for assessing Deductions contract applications.

Approved and rejected applications

4.11 The large majority of Merchant contract applications, and all Deductions contract applications, have been approved. For the small number of Merchant contract applications rejected, the predominant reason has been that the main business activity of the organisation was not the sale of priority goods and services, as specified in the eligibility criteria. A breakdown of the number of Merchant and Deductions contract applications processed is included in Table 4.1.

Table 4.1

Number of Merchant and Deductions contract applications approved and rejected

	Number approved	Number rejected	Total processed
Merchant contracts[A]	7 438	77	7 515
Deductions contracts[B]	400	0	400

Source: DHS advice.

Notes: [A] Merchant contract data at 13 July 2012.

[B] Deductions contract data at 30 June 2012.

Contract reporting requirements

4.12 Merchant contracts and Schedule 4 Deductions contracts (approved services) do not contain any regular reporting requirements. Until June 2012, signatories to Schedule 5 Deductions contracts (approved goods) were required to complete monthly reports as part of their contract. The reports were to contain a signed statement providing account details for each customer with an income managed account at the store, including:

- all amounts received from and returned to DHS; and
- any amounts accessed by the customer and the balance of the account.

4.13 In February 2012, DHS advised that only 50 per cent of third party organisations were providing the report on a monthly basis. DHS further advised that the reporting requirement was a burden for the department as the large volume of information in the monthly reports was difficult to manage. The reporting requirements were also considered to be an administrative burden for third party organisations and one of the reasons some organisations chose not to enter into a contract.

4.14 In June 2012, DHS introduced a new Deductions contract which, among other changes, included a change to the Schedule 5 reporting requirements from a monthly basis to an 'as requested' basis. Under the new arrangements, the department can request a report at any time, including when issues are identified or in conjunction with a compliance review.

4.15 The process of transitioning organisations from the old contract to the new contract was completed in October 2012. DHS advised that of the 486 organisations that had been offered the opportunity to transition to the new Deductions contract, 395 had transitioned and 91 had terminated their contract.

4.16 The purpose of the former monthly reports was to enable DHS to monitor customer balances at stores and take action when anomalies, such as large or negative balances, were identified. It also potentially provided the department with information that could be used in the event of a dispute between the customer and the third party, or where the third party ceased trading. While the new contractual arrangements address an administrative issue identified by DHS, it is unclear how the department will identify and monitor anomalies with customers' store balances in the future.

Managing compliance with Merchant and Deductions contracts

4.17 DHS has developed a compliance program for contracted third party organisations, to ensure that they are complying with their contracts, including provisions relating to preventing the sale of excluded goods and services. The sampling methodology used to select BasicsCard merchants is based on selecting organisations from defined categories. The highest ranked category is merchants with a turnover of excluded goods or services that represents 25 to 50 per cent of their annual stock turnover.[42] Selections begin with organisations that are in the highest ranked category and will continue to go down the rankings until the target number of organisations has been selected for review.

4.18 In 2009, DHS conducted a risk assessment which resulted in organisations holding Deductions contracts being allocated a risk rating of high, medium or low based on the types of goods or services the organisation provided. The sampling methodology for Deductions contracts specifies the percentage of high, medium and low risk rated organisations that will be selected for review. For both Merchant and Deductions contracts, additional organisations are also selected for reviews based on complaints and tip-offs.

4.19 National BasicsCard merchants such as major supermarket chains and large clothing retailers are excluded from selection using the sampling methodologies. However, these organisations can still be selected for review in response to a tip-off or complaint. DHS is currently negotiating a compliance strategy for these organisations and expects it will take a number of months to finalise. At July 2012, there were 4078[43] National BasicsCard merchants, leaving approximately 3200 contracts in scope for BasicsCard compliance reviews.

Process for conducting compliance reviews

4.20 Once an organisation is selected for a compliance review, DHS contacts the organisation to arrange an onsite visit and gathers background information. During the compliance visit DHS assesses whether the organisation is complying with their contractual terms and conditions, and gathers evidence to support their findings.

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[42] Merchants with an annual stock turnover that comprises more than 50 per cent of excluded goods are ineligible for a contract.

[43] DHS advice.

4.21 Organisations can be found to be compliant, compliant but issued a warning letter, or non-compliant with the relevant terms and conditions. Organisations found to be non-compliant may be issued with a remedy notice (which outlines what they must do to remedy the breach and may be followed up in future visits), or, depending on the severity of the non-compliance, their contract may be terminated.

Compliance program reporting and results for 2011–12

4.22 DHS has not set a compliance target, however, internal reporting indicates that 90 per cent compliance across all contract types is the benchmark level which the department considers desirable. Table 4.2 outlines the 2011–12 compliance program results.

Table 4.2

Results of the 2011–12 compliance program

	Number of reviews completed	Number compliant	Number non-compliant
BasicsCard Merchants	323	213 (66%)	110 (34%)
Schedule 4 Deductions	51	43 (84%)	8 (16%)
Schedule 5 Deductions	63	47 (75%)	16 (25%)

Source: DHS documentation.

4.23 The overall level of compliance across all contract types was below 90 per cent, with BasicsCard merchants recording the highest levels of non-compliance (one in three merchants reviewed were non-compliant). DHS identified that the main reasons for non-compliance by BasicsCard merchants were: failing to keep receipts to demonstrate the goods and services provided (43 cases); and allowing the purchase of excluded goods (28 cases). The main reasons identified for non-compliance by Deductions contract holders were: failing to keep point of sale cash register dockets for two years (six cases); and failing to credit the full Income Management deduction to the customer's account (six cases).

4.24 The majority of organisations that were found to be non-compliant were given remedy notices, with only a small number of contracts terminated. Table 4.3 outlines the outcomes for organisations found to be non-compliant.

Table 4.3

Outcomes for organisations found non-compliant

	Remedy notice	Contract terminated	Other[A]
BasicsCard Merchants	103	2	5
Schedule 4 Deductions	8	0	0
Schedule 5 Deductions	11	2	3

Note: [A] Other includes reasons such as: outcome unknown, remedy notice not applicable; contracts withdrawn; and actions still under consideration.

Source: DHS documentation.

Compliance program quality assurance process

4.25 In January 2012, DHS introduced a quality assurance process for its compliance program. The purpose of the quality assurance process is to ensure that the quality and number of compliance reviews provide DHS with sufficient assurance that third party organisations are meeting the terms and conditions of their contracts.

4.26 The first quality assurance process for Merchant contracts was based on a random selection of 10 per cent of compliance reviews conducted between January and April 2012. Nine compliance review assessments were completed, with only two reviews found to meet the compliance standards established by DHS. The reasons for not meeting the standards were identified as procedural, such as a non-compliant result not being adequately documented. No compliance reviews of Deductions contracts were assessed as part of the quality assurance process.

Compliance program for 2012–13

4.27 The sampling methodologies used for the compliance program indicate an intention:

- to review the methodologies used at the end of each financial year; and
- update the risk ratings used for Deductions contracts based on the results of the compliance program.

4.28 The 2012–13 sampling methodologies for BasicsCard and Deductions contracts use the same approach as the 2011–12 methodology, with no changes made to the methods for selecting organisations for review or to the risk ratings for organisations with Deductions contracts. This means that there has not been a review of the risk ratings for organisations since 2009.

4.29 The 2011–12 compliance program was largely based on manual processes, with the information being maintained in various spreadsheets. DHS identified this approach as being a risk to the quality controls for the compliance program and the results from the limited quality assurance process demonstrated that the approach required improvement.

4.30 DHS advised that an automated workflow is being used to support the 2012–13 compliance program. The workflow is used to, among other things:

- perform a random selection of third party organisations for review;
- generate reviews as the result of complaints or tip-offs;
- support a consistent approach to conducting compliance reviews and provide staff with a mechanism to record information in the system; and
- generate management information reports.

4.31 Further analysis of the compliance program results could assist with the identification of trends or specific issues that may lead to non-compliance and allow the department to develop strategies to address these issues. For the compliance program to continue to improve and reduce the likelihood of non-compliance each year, it is important that the results from the previous year's compliance program inform the development of future compliance programs.

4.32 The new approach for 2012–13 presents DHS with the opportunity to address previously identified weaknesses with the compliance review process. Further, it will be important for DHS to use the data being collected to help identify the reasons for any non-compliance and then develop strategies to address the issues.

Manual payments to third party organisations

4.33 Manual payments provide DHS with a way of transferring money from a customer's Income Management account to a third party organisation when BasicsCard or direct deduction arrangements are unsuitable. Manual payments are usually not supported by a contractual arrangement and can be made on a regular or one-off basis. Manual payments can be made because organisations or individuals are:

- not in scope for contracting purposes as they do not sell/provide goods or services that are identified as meeting a customer's priority needs, such as a pay television company[44];
- in scope for contracting purposes, but have not signed up for one of the Income Management contracts; or
- unlikely to receive any future payments of income managed funds, such as a private individual who is selling a car.

4.34 Manual payments are processed daily by a DHS team and can be made by credit card or cheque. Manual payments require staff to process each payment every time it is required, even if it is a regular payment arrangement such as a private rental agreement. The manual nature of the payment increases the risk of incorrect payments due to human error. Some examples of types of errors that can be made are:

- paying the wrong third party organisation;
- duplicate payments (this can be due to a system error); and
- paying the incorrect amount.

4.35 To reduce the risk of processing errors, procedures have been developed that identify the steps involved in processing payments, and credit cards are reconciled on a daily basis. In addition, a quality assurance tool has been developed which selects a proportion of each processing officer's work for rechecking.

4.36 The proportion of work selected for quality assurance varies depending on the experience level of the officer and ranges from five per cent for the most experienced officers to 100 per cent for new officers. From July 2011 to June 2012, DHS checked 13 per cent of activities completed by officers processing manual payments and identified errors in one per cent of the sample. If an error is identified during the quality assurance process, the activity is returned to the officer responsible for the error for correction. The quality assurance checker will support the officer through the process of rechecking the activity.

[44] While one of the objectives of Income Management is to direct income managed funds to priority needs, income managed customers are able use income managed funds to purchase non-excluded goods and services that do not fall into the category of priority needs if their priority needs have been met.

Uncontracted manual payments

4.37 While there is a need for the manual payment mechanism so as to not restrict an income managed customer's access to goods and services, the nature of the payments means that they are time-consuming and susceptible to human error. In addition, where manual payments are made to organisations that do not have a contract with DHS, additional risks exist because the organisations are not bound by contractual terms and conditions. This makes it more difficult for DHS to be assured that actions such as selling excluded goods or services and providing cash refunds have not occurred. Therefore, it is preferable to minimise the number of manual payments, particularly those paid on a regular basis.

4.38 From June 2012, DHS has produced a report which identifies third party organisations that regularly receive multiple manual payments.[45] This is a source of valuable information that allows DHS to more easily identify those organisations that are eligible for one of the contractual arrangements but instead choose to receive manual payments. Better understanding the drivers of an organisation's decision to not enter into a contractual arrangement could assist with the development of strategies to address any barriers and/or concerns. DHS has commenced work in this area and is using this information to identify organisations that could potentially be eligible for an Income Management contract. These organisations are being contacted by DHS to encourage their participation in Income Management through a relevant contract.

4.39 There are organisations that are ineligible to enter into Income Management contracts because they do not sell priority goods or services. DHS is investigating the possibility of developing a new contract for organisations selling non-priority, non-excluded goods and services, such as pay television companies.

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45 DHS advised that due to IT issues they were unable to produce this report prior to June 2012.

Conclusion

4.40 A third party organisation wanting to provide goods and services to income managed customers can choose from three payment mechanisms, provided they meet the relevant eligibility criteria. Two of the mechanisms, which facilitate BasicsCard and direct deduction payments, are based on contractual arrangements that support the objectives of Income Management and provide for activities such as compliance reviews. The third mechanism relates to manual payments, which can provide an important option where the BasicsCard or direct deduction options are unsuitable. However, manual payments are not supported by the same contractual arrangements as BasicsCard and direct deduction payments and therefore organisations receiving manual payments are not subject to terms and conditions such as compliance reviews.

4.41 DHS has developed a compliance program to monitor organisations' adherence to their contractual obligations. The 2011–12 results were lower than the department's desired level of 90 per cent compliance, with 66 per cent of BasicsCard merchants reviewed being found compliant. The main reasons for non-compliance by BasicsCard merchants were failing to keep receipts to demonstrate the goods and services provided and allowing the purchase of excluded goods.

4.42 The 2011–12 compliance program was based on manual processes, relying on information maintained in various spreadsheets. DHS identified this approach as being a risk to the quality controls for the compliance program and the results from the limited quality assurance process demonstrated that the approach required improvement. For the 2012–13 compliance program, DHS has implemented a system supported by automated workflows. The new approach presents DHS with the opportunity to address previously identified process weaknesses; better identify reasons for non-compliance; and develop appropriate strategies to address compliance issues.

4.43 The nature of manual payments means that they are time-consuming and susceptible to human error. In addition, where a contract is not in place, additional risks exist and it can be more difficult for DHS to be assured that actions such as selling excluded goods or services and providing cash refunds have not occurred. Therefore, it is preferable to minimise the number of manual payments, particularly those paid on a regular basis.

4.44 DHS produces a report which identifies third party organisations that regularly receive multiple manual payments. This allows the department to more easily identify those organisations that could be eligible for one of the contractual arrangements but instead choose to receive manual payments. DHS is using this information to contact organisations and encourage them to participate in Income Management through a relevant contract. DHS could further use this information to better understand the factors that may inform an organisation's decision whether to enter into a contract and develop strategies to encourage greater take-up of the arrangements.

5. Monitoring and Reporting Service Delivery

This chapter examines DHS' processes for monitoring the delivery and performance of the New Income Management services in the Northern Territory.

Introduction

5.1 The service delivery requirements for Income Management differ from the day-to-day management processes supporting the majority of services provided by DHS. New Income Management is an intensive service delivery approach that requires the department to engage and communicate with customers, merchants and a range of stakeholders in both remote and urban areas of the Northern Territory.

5.2 Under New Income Management, the expansion of the scheme across the Northern Territory further increased the servicing demands and complexities involved. DHS is now responsible for delivering Income Management services over a greater geographic area to a wider customer group, and is required to apply a more complex set of eligibility criteria to an expanded range of Income Management measures.

5.3 The ANAO reviewed how DHS monitors service delivery performance for New Income Management in the Northern Territory, including:

- the quality control and assurance framework developed to support the delivery of Income Management services;
- overpayments and recoveries; and
- internal reporting and monitoring arrangements.

Quality control and assurance

5.4 DHS has identified a number of quality controls and assurance tools for Income Management, including: IT systems providing workflows, processes and automated decision-making in order to support a consistent approach and reduce the chance of error; and individual processes adopted by each of the areas in the department with a role in delivering Income Management services.

5.5 IT controls are a common feature in DHS' quality control framework. For many of the services DHS provides, the department also often has in place an overarching quality assurance framework which covers both the integrity of payments and quality of services provided. However, an overarching framework has not been developed for New Income Management. Establishing such a framework would be particularly valuable for New Income Management, given the different service delivery approach and subsequent risks such as: assessing exemption applications (refer paragraphs 3.11 to 3.23); making manual payments (refer paragraphs 4.37 to 4.39) and managing recoveries and overpayments (refer paragraphs 5.9 to 5.22).

5.6 In June 2009, DHS undertook a review of the quality controls in place for NTER Income Management activities. The review identified that complexity, human error and the service delivery environment were the three main causes of errors by staff. The review also highlighted that the majority of quality controls in place were system-based, such as automated functionality and workflows. The review concluded that while the extent of the dollar value of errors identified was 'minimal', there were concerns regarding the 'impact of errors' on customers as well as risks to DHS' reputation when errors occurred. In response to the findings, DHS developed and implemented a communication strategy to increase staff awareness about the instances and consequences of errors and promote a quality focus among staff.

5.7 Some of the issues identified by the review, such as work volume and time pressures, are not unique to Income Management. However, there are many other factors, such as the complexity of the rules, the frequency and nature of customer contacts and the number of different measures, which present ongoing challenges for the delivery of Income Management services. Therefore, it is important that the service delivery approach and underpinning processes and procedures are encompassed by a quality framework that recognises these factors.

5.8 With Income Management now implemented in the Northern Territory and being progressively rolled out to other locations in Australia, it is timely for DHS to consider if the current quality management processes and controls remain appropriate. In this context, there would also be benefit in assessing the merits of developing an overarching quality assurance framework to support the delivery of Income Management services.

Monitoring and managing recoveries and overpayments

Recoveries

5.9 Circumstances can arise where a third party organisation is holding income managed funds that need to be returned to customers. In this situation it is DHS' responsibility to recover the funds. Events that may trigger a recovery include:

- an organisation advising DHS that it is holding allocations for a customer who has not purchased goods or services for a considerable time, or are known to have moved;
- a customer advising DHS that they will no longer be using a business where they have money allocated;
- a business that is holding income managed funds ceasing to trade; and
- DHS making an incorrect payment to an organisation.

5.10 DHS has procedures for recovering income managed funds from third party organisations and maintains an Income Management Recoveries Register, which is a spreadsheet outlining recoveries information. Depending on the nature of the event that triggers a recovery, the source of the request can be the third party organisation, the customer or DHS. Table 5.1 outlines the number and source of recovery requests for the period 1 July 2011 to 6 August 2012.

Table 5.1

Recovery requests

Source of request	Number of requests	% of requests
Customer	658	23
Third party organisation	1 447	51
DHS[A]	672	24
Unknown[B]	55	2
Total	**2 832**	**100**

Note: [A] Includes requests made by staff or as a result of identified DHS system errors.

[B] DHS has not recorded the source of the request.

Source: ANAO analysis of the Income Management Recoveries Register.

5.11 Regardless of the source of the request, in the majority of cases a customer must wait until DHS receives the outstanding funds from the third party organisation before their Income Management account is re-credited and they again have access to the funds. In certain circumstances involving hardship situations, a customer can apply for an urgent re-credit and DHS has a process for managing and assessing such applications.[46] Between 1 January 2012 and 24 August 2012 there were 22 applications for hardship payment, of which six were granted.

5.12 The time taken to recover income managed funds can have economic and other impacts on a customer, especially those who are the most vulnerable in the community. DHS maintains a separate spreadsheet to monitor recoveries that take longer than 30 days. Table 5.2 shows the time taken to finalise a recovery request, for those requests recorded between 1 July 2011 and 6 August 2012.

Table 5.2

Number of days taken to finalise recovery requests

Number of days taken to finalise recovery request	Number of requests	% of requests
0-7 days	1 691	60
8-14 days	414	15
15-29 days	253	9
30 days or more	343	12
Unresolved or unknown[A]	131	5
Total	**2 832**	**100[B]**

Note: [A] This includes requests that had not been finalised as at 6 August 2012, as well as instances where the date the request was finalised could not be determined.

[B] Add to 101 due to rounding.

Source: ANAO analysis of the Income Management Recoveries Register.

5.13 While 60 per cent of recoveries were resolved within seven days or less, 12 per cent of recoveries took 30 days or more to finalise. Table 5.3 shows the value of those recoveries that took 30 days or more to recover.

[46] To be granted an urgent re-credit, customers must meet specific criteria including being able to demonstrate hardship. If an urgent re-credit is granted, the customer will have their funds returned to their account by DHS prior to the third party organisation returning the money to DHS.

Table 5.3

Number and value of recoveries that took longer than 30 days

Value	Number of recoveries	% of recoveries
Funds not re-credited [A]	55	16
No value entered in register	16	5
Less than $1	16	5
$1-$100	98	29
$100-$200	57	17
$200-$300	27	8
$300-$400	18	5
$400-$500	15	4
$500-$1000	18	5
$1000 or more	23	7
Total	**343**	**100** [B]

Note: [A] In some instances recoveries are finalised without funds being requested; for example, if the recovery request is cancelled.

[B] Add to 101 due to rounding.

Source: ANAO analysis of Income Management Recoveries Register.

5.14 Table 5.3 shows that on 41 occasions between 1 July 2011 and 6 August 2012, customers had to wait over 30 days for funds of $500 or more to be recovered. To put this into context, the Newstart Allowance, which is an income support payment that can be subject to Income Management arrangements, was $492.60 per fortnight during this period.[47] The largest recovery that a customer had to wait over 30 days to receive was for $5759.85.

Overpayments

5.15 There are instances where the amount paid to a third party organisation by DHS exceeds the amount deducted from the customer's Income Management account. In some of these circumstances, a customer or a third party organisation may be liable to repay the funds to the Commonwealth and will have a debt raised to recover any additional funds that have been provided. This can occur when:

[47] This rate is for customers who are single with no children.

- a payment is mistakenly made when there are insufficient funds in the customer's Income Management account to cover the payment;
- funds are incorrectly credited to a customer due to a system or processing error;
- an urgent re-credit is made to a customer and the third party organisation does not return the funds; and
- someone other than the customer and without the customer's consent, accesses a customer's Income Management account or income managed funds held by a third party organisation.

5.16 DHS identifies overpayments in a number of ways including: detecting system errors; staff feedback; and advice from third party organisations or customers. However, there are no guidelines, procedures or an overarching framework to support the identification of overpayments. This increases the risk that not all instances of overpayments, and therefore debts, are identified.

5.17 When DHS becomes aware of an overpayment, the information is recorded in a Debt Register spreadsheet. A majority (84 per cent) of the overpayments that have been recorded on the register are due to DHS system or processing errors. Table 5.4 outlines the reasons for overpayments and potential debts.

Table 5.4

Reasons for overpayments and potential debts

Reason	Number of overpayments	% of overpayments
DHS error made through the manual payment process	130	36
Other DHS system/processing issues/errors	110	31
A customer is issued a cheque with a value greater than the balance of their Income Management account	62	17
Urgent re-credit of income managed funds not returned	31	9
Debt owed by third party organisation	16	4
Someone other than the customer, and without the customer's consent, accesses the customer's income managed funds	11	3
Total	**360**	**100**

Source: ANAO analysis of Debt Register at 22 August 2012.

5.18 Some of the overpayments on DHS' register are from NTER Income Management and date back to 2008, with the largest number of overpayments (89) being identified in 2009. The amount for a single customer ranges from less than $1 to $4000. Table 5.5 outlines the number and value of overpayments.

Table 5.5

Number and value of identified overpayments

Value	Number of overpayments	% of overpayments
Less than $1	21	7
$1 - $50	51	17
$50 - $100	56	19
$100 - $200	63	21
$200 - $300	38	13
$300 - $400	22	7
$400 - $500	10	3
$500 - $1000	18	6
$1000 or more	17	6
Total	**296**	**100**[A]

Note: [A] Add to 99 due to rounding.

Source: ANAO analysis of DHS' Debt Register spreadsheet.

Amendments to legislation

5.19 The *Social Security and Indigenous Legislation Amendment (Budget and Other Measures) Act 2010*, among other things, provided authority for DHS to collect Income Management overpayments as debts through the social security debt collection system. The amendments also enable DHS, in certain circumstances, to reimburse customers from a special appropriation[48] before recovery action from a third party organisation is completed. That is, instead of waiting for the funds to be returned from the third party organisation, a customer's Income Management account will be re-credited and DHS will raise the outstanding amount as a debt to the Commonwealth. Once the debt

[48] A special appropriation is a provision within an Act that provides authority to spend money for particular purposes, for example, to finance a particular project or to make social security payments.

recovery action has been completed, any funds recovered from third party organisation will be returned to the Consolidated Revenue Fund.

5.20 Despite the amendments to the legislation in July 2010, DHS does not currently re-credit a customer's Income Management account until it has received the funds from the third party organisation, and no overpayments have been raised as debts.

5.21 In October 2012, during the course of the audit, the Income Management Balancing Appropriation was established. The appropriation is designed to facilitate the re-crediting of a customer's Income Management account when a debt is raised against a third party organisation. DHS advised that:

> A process has now been agreed with FaHCSIA and the Department on how these overpayments/debts can be managed. The Department is currently reviewing old cases and assessing these against the new process including the waiver of any debts where appropriate. This is expected to be finalised by the end of the year [2012].

5.22 The new process for raising debts presents an opportunity for the department to ensure that there is also an appropriate framework in place to identify and manage overpayments, including clearly outlining under what circumstances an overpayment will be raised as a debt. This is particularly important given the potential impact on some customers, the age of some of the identified overpayments, the underlying reasons for the overpayments and DHS' subsequent ability to raise debts.[49]

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[49] Under section 1237A of the *Social Security Act 1991*, the 'Secretary must waive the right to recover the proportion of a debt that is attributable solely to an administrative error made by the Commonwealth if the debtor received in good faith the payment or payments that gave rise to that proportion of the debt. This applies if:

(a) the debt is not raised within a period of 6 weeks from the first payment that caused the debt; or

(b) if the debt arose because a person has complied with a notification obligation, the debt is not raised within a period of 6 weeks from the end of the notification period;

whichever is the later.'

Monitoring and reporting on the delivery of income managed services

5.23 DHS collects an extensive amount of administrative data on Income Management. The data is extracted from a number of DHS' systems including the main customer interfaces, the BasicsCards system and spreadsheets maintained by various areas within DHS.

Project monitoring and reporting

5.24 DHS has adopted a project-based approach to managing the delivery of New Income Management. To support this approach, since the roll-out commenced the department has prepared an internal monthly project status report. The report has tracked progress and results against the milestones outlined in the project plan, including the development and delivery of staff training, customer engagement and transition and the IT systems business requirements. The reports provided management with valuable information on progress during the implementation phase and indicated that all milestones were achieved and the project remained on track. The focus of the reporting, however, has not been updated to reflect the post-implementation operating environment.

5.25 As the initial phase of implementing Income Management has been completed, there would be value in DHS reviewing the content and purpose of its internal reporting to ensure it best supports management in the ongoing delivery of Income Management services.

5.26 In this context, DHS advised that a review of key business processes supporting the delivery of New Income Management will be undertaken in 2012. The major aim of the review is to identify any potential service delivery improvements and efficiencies. With the further roll-out of Income Management across Australia having commenced from 1 July 2012, DHS could benefit from using the information gathered through the review to help inform the required reporting arrangements, and shift the focus from implementation to ongoing management of a project-based delivery of services.

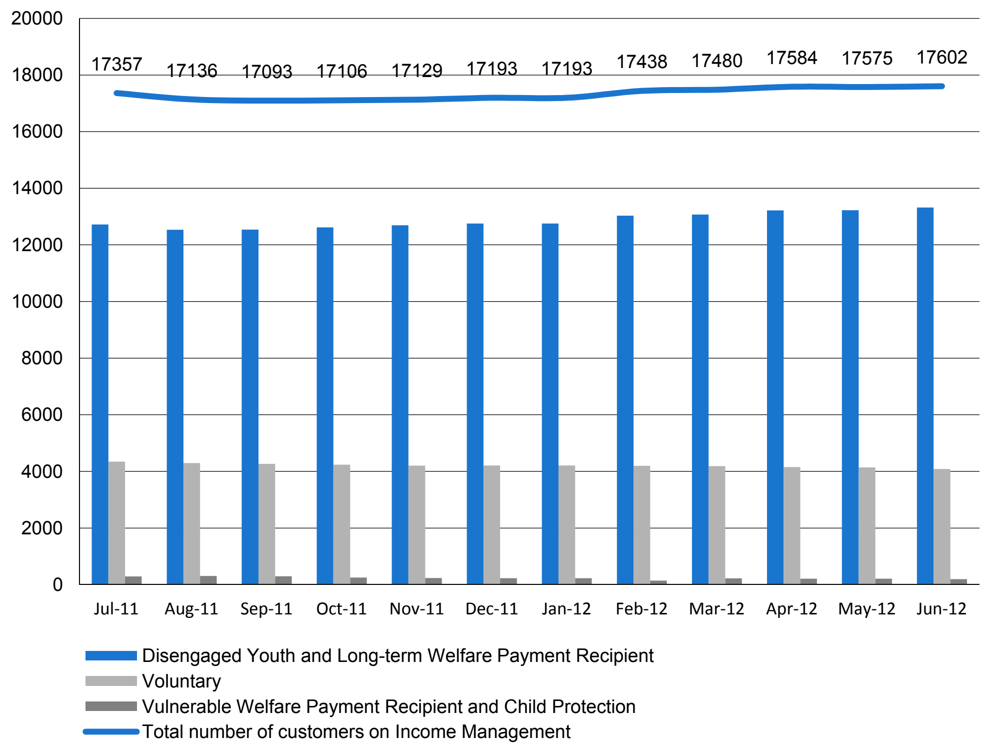
Monitoring and reporting on customers

5.27 DHS provides weekly reports to FaHCSIA on Income Management customer activity. These reports provide a breakdown of customer numbers across each Income Management measure. The information is presented at a cumulative level and does not provide a breakdown that allows for trend analysis. There is also no addition commentary supporting the figures and results, which limits the ability to understand the drivers of any fluctuations in customer numbers.

5.28 The total number of customers on New Income Management remained largely steady during 2011–12, reaching a monthly average peak of 17 602 in June 2012. The majority of Income Management customers are on one of the three compulsory measures, with over 70 per cent coming under the Disengaged Youth/Long-term Welfare Payment Recipient measure. Figure 5.1 shows the total number of customers on New Income Management during 2011–12 and provides a breakdown of each measure.

Figure 5.1

Number of customers on New Income Management during 2011–12



Source: ANAO analysis.

5.29 Between early September 2011 and June 2012, the number of people on compulsory Income Management measures grew from 12 838 to 13 311. This growth was largely driven by the number of Long-term Welfare Payment Recipients, particularly those on New Start Allowance, commencing Income

Management. In contrast, the number of customers on Voluntary Income Management has been steadily decreasing.

5.30 Understanding the numbers of customers either on or exiting Income Management, and the drivers of trends, is important information that can assist with managing the delivery of Income Management services. While the number of customers is below the initial forecast of 20 000, identifying trends is important, given that Income Management requires a more intensive service delivery model, and fluctuations in customer numbers could require DHS to adjust its resourcing.

Monitoring and reporting on payments to third party organisations

5.31 DHS monitors and reports data on BasicsCard and manual payment transactions. Table 5.6 provides a breakdown of the number and value of Income Management transactions processed in 2011–12.

Table 5.6

Number and value of Income Management transactions processed in 2011–12

Mechanism	Number of transactions	Value ($m)
BasicsCard	4 636 877[A]	163.8[B]
Manual payments[C]	68 438	10.3

Note: [A] Total number of BasicsCard related transactions.

[B] Dollar value successfully redeemed by BasicsCard holders including both EFTPOS purchases and refunds.

[C] Includes payments made via BPAY, credit card and cheque.

Source: ANAO analysis of BasicsCard monthly reports and IMPACT monthly reports.

5.32 Table 5.6 shows that the majority of transactions by number and value are facilitated by the BasicsCard. Direct deduction payments are not part of the analysis as DHS does not regularly collect data on this payment type. By not collecting and reporting this data, DHS is unable to comprehensively monitor the trends in Income Management transaction types and use this information to inform service delivery decision-making.

5.33 While BasicsCard payments make up the majority of transactions, the number of manual payments has been increasing at a much greater rate than the number of BasicsCards payments. In January 2011 (by which time the roll-out had been largely completed), DHS processed 2920 manual payment transactions. In June 2012, this number had increased by 97 per cent to

5759 transactions. In comparison, over the same period, the number of BasicsCard transactions grew by 28 per cent.

5.34 The large growth in manual payments is particularly significant, given the different risks associated with these transactions. The data being captured by DHS could be used to identify trends, such as common goods and services being purchased and third party organisations that are regularly receiving manual payments. This information could then be used to assist in the development of risk mitigation strategies and actions to encourage greater take-up of the contracts available for BasicsCards and direct deductions (refer paragraphs 4.37 to 4.39).

Monitoring the costs and resources required to deliver Income Management services

5.35 As previously mentioned, FaHCSIA and DHS estimated that New Income Management would apply to 20 000 people in the Northern Territory. In developing the policy costing, consideration was given to the varying costs associated with providing Income Management services in different geographical areas. For example, departments were aware that providing income managed services to people in remote areas would be more costly than providing services to those in rural and urban areas. The estimated costs were:

- remote areas—between $6600 and $7900 per person, per annum;
- rural areas—between $3900 and $4900 per person, per annum; and
- urban areas—between $2400 and $2800 per person, per annum.

5.36 In addition to geographic factors, the servicing needs of different customer groups, and therefore costs, can vary greatly. Some customers require daily contact with DHS to allocate funds or request a replacement BasicsCard; whereas other customers will have minimal contact. Customer Service Advisors in Darwin and Alice Springs advised that Income Management-related tasks can take up between 70 and 90 per cent of their daily work.

5.37 In the context of the Government announcing total funding of $410.5 million for New Income Management in the Northern Territory (over six years[50]), DHS has been provided with $332 million over five years to deliver the services. Table 5.7 outlines the DHS funding profile.

Table 5.7

DHS funding for Income Management service delivery

	2009–10 ($m)	2010–11 ($m)	2011–12 ($m)	2012–13 ($m)	2013–14 ($m)
DHS funding	7.7	90.8	82.0	75.7	76.2

Note: The funding figures include related capital expenditure.

Source: *Budget Measures 2010–11*, Budget Paper No. 2.

5.38 DHS advised that it had spent a total of just over $80 million in 2011–12 to deliver Income Management services in the Northern Territory. Approximately 50 per cent of expenditure was focused on front-line customer service (Area Office and the Smart Centre Network funding). Table 5.8 provides a breakdown of DHS' expenditure for 2011–12.

Table 5.8

Income Management expenditure for 2011–12

Expenditure	Amount ($000)
Project budget	27 093
National Support Office	3 941
Area Office (delivery of services to customers through the Area Office, Customer Service Centres and Remote Service Teams)	29 261
Smart Centre Network	11 690
Corporate overhead (such as accounts and IT)	8 733
Total Expenditure	**80 718**

Source: ANAO analysis of DHS document titled: *Indigenous, Rural and Remote Servicing Division Income Management in the Northern Territory.*

5.39 As Income Management services form one part of DHS' broader remote servicing arrangements, the funding outlined above can contribute to common fixed costs that fall under these arrangements.

5.40 Forecasting customer numbers can be complex, particularly when uptake is driven by many factors, some of which are beyond the control of

50 The $410.5 million included $6 million to be provided for the delivery of the BasicsCard in 2014–15.

departments. The number of customers receiving Income Management services has never reached the forecast 20 000 and, most recently, has been in the range of 17 000 to 17 600 people.

5.41 The lower than forecast customer uptake has resulted in an underspend when compared to the funding profile outlined in the 2010–11 Budget. DHS advised that it is unable to quantify the underspend due to the difficulties in isolating the expenditure incurred directly in relation to Income Management and separating such expenditure from the broader remote servicing arrangements.

5.42 As DHS is unable to directly isolate the costs of Income Management, the department is limited in its ability to measure the cost efficiency of the delivery approach, something that is particularly important given the additional costs arising from the staff-intensive delivery model required for the scheme.

5.43 DHS is currently undertaking a project which includes an analysis of actual customer numbers and how these can be used to develop financial benchmarks and inform the costing model. A review that considers both the actual customer numbers compared to the estimated number and the customer servicing needs will better allow DHS to identify the cost drivers for delivering Income Management services. This could provide a basis to develop financial benchmarks to measure the administrative costs of delivering Income Management services.

Data analysis

5.44 The internal reports produced by DHS indicate that there is an extensive amount of management information collected on Income Management service delivery. The information in the reports demonstrates the level of activity that has been undertaken to deliver Income Management services and provides for monitoring of individual process or project results. However, there are no consistent indicators that provide an overall assessment of the department's success or otherwise in delivering Income Management services.

5.45 A 2010 Income Management Branch Structure review found that:

> There is room for improvement in analysing program data relevant to the operations of the IM [Income Management] Branch. At present, reports from Account Managers, IMPACT [Income Management Payment and Contact

> Team] and CBS [Centrelink Business Services] appear to receive little attention from and little analysis by National Support Office (NSO) teams …
>
> There is no business unit charged with undertaking analyses across the products and programs of the IM Branch to assist in policy deliberations or review of processes (p. 29).

5.46 The review recommended that a Business Manager be appointed to lead a team which would analyse program data relevant to the Branch's responsibilities, including new projects. In response, DHS established a Management Information team to provide program data. DHS expects to expand the role of the team to include data analysis, the results of which will be used to inform process improvement.

5.47 It is not evident from the reports produced by DHS what level of analysis is undertaken to understand the key drivers and the expected service delivery performance. DHS could improve its internal monitoring and reporting of information on Income Management by developing performance indicators that reflect the key responsibilities and achievements required for the successful delivery of Income Management services. The performance indicators should also provide the information necessary for DHS to identify any areas of concern, and to more efficiently and effectively target future performance improvement efforts.

Recommendation No.1

5.48 To improve the internal monitoring and reporting of information on Income Management, the ANAO recommends that DHS develop performance indicators, including financial benchmarks, which provide a basis for measuring the efficiency and effectiveness of the service delivery approach.

DHS response: Agree.

Conclusion

5.49 System-based controls including workflows and automated functionality feature prominently in DHS' IT delivery design for Income Management. While these features support consistent decision-making and provide a basis for quality control, there is no overarching quality assurance framework covering all Income Management activities. With Income Management now implemented in the Northern Territory and being progressively rolled out to other locations in Australia, it is timely for DHS to consider if the current quality management processes and controls remain appropriate. In this context, there would also be benefit in assessing the merits of developing an overarching quality assurance framework to support the delivery of Income Management services.

5.50 The nature of the Income Management arrangements means that situations can arise where moneys are required to be returned to the Commonwealth by either a third party organisation or a customer. Between 1 July 2011 and 6 August 2012, 2832 requests for recoveries from third party organisations were actioned. Of these, 12 per cent took 30 days or more to finalise, and on 41 occasions the value of the recovery was $500 or more. In the majority of recovery cases the customer must wait until the funds have been returned before their Income Management account is re-credited.

5.51 As with recoveries, overpayments can potentially lead to a debt being raised against a third party organisation or a customer. The majority of overpayments that have been identified (84 per cent) are due to DHS system or processing errors. Unlike recoveries, DHS has not established guidelines or a framework to support the identification of overpayments. This increases the risk that not all overpayments are identified, or identified in a timely manner. Following amendments to social security law in 2010, DHS is developing a new process for raising debts. This presents an opportunity to ensure that there is also an appropriate framework in place to identify and manage overpayments, and clarify the circumstances when an overpayment will be raised as a debt. This is particularly important given the potential impact on customers, the age of some of the identified overpayments, the underlying reasons for the overpayments and DHS' subsequent ability to raise debts.

5.52 DHS prepares a monthly project status report to track progress and results. While the reports provided management with useful information during the roll-out phase, the focus of the reporting has not been updated to reflect the post-implementation operating environment. As a consequence, the reporting does not provide an indication of important ongoing success factors, such as if the services being delivered are meeting customers' expectations.

5.53 There is also scope for DHS to improve its monitoring and reporting arrangements in order to better understand the cost effectiveness of Income Management service delivery; which involves additional costs arising from the resource intensive delivery model required for the scheme. To this end, the monitoring and reporting arrangements could be improved by developing performance indicators that better measure the efficiency and effectiveness of Income Management service delivery.

6. Monitoring and Reporting Income Management Objectives

This chapter examines the performance reporting framework for Income Management established in FaHCSIA's Portfolio Budget Statements and Annual Report, and the Australian Government's evaluation of New Income Management in the Northern Territory.

Introduction

6.1 Performance monitoring and evaluation are important not only to assess whether the aims of a program are being achieved, but also for administrators to review overall progress in a systematic way and, where necessary, adjust the delivery approach. Effective performance reporting informs internal and external stakeholders and can strengthen program management and accountability.

6.2 FaHCSIA is responsible for providing the policy and program framework for New Income Management, and this includes monitoring and reporting on the performance of all Income Management measures.

6.3 The ANAO reviewed the performance monitoring and reporting arrangements for Income Management, including the:

- performance monitoring and reporting framework established in FaHCSIA's Portfolio Budget Statements and Annual Report; and
- evaluation of New Income Management in the Northern Territory.

Performance reporting framework

6.4 The objectives of Income Management are established in legislation, with the *Guide to Social Security Law* outlining that Income Management is a key measure for 'supporting disengaged youth, long-term welfare payment recipients and people assessed as vulnerable, and is aimed at encouraging engagement, participation and responsibility'.[51] More broadly, Income

[51] Department of Families, Housing, Community Services and Indigenous Affairs, 'Objectives of Income Management', in FaHCSIA, *Guide to Social Security Law* [Internet]. FaHCSIA, 2010, available from <http://guidesacts.fahcsia.gov.au/guides_acts/ssg/ssguide-11/ssguide-11.1/ssguide-11.1.1/ssguide-11.1.1.30.html> [accessed 29 October 2012].

Management has been described by the Government as 'a key tool in the government's broader welfare reforms to deliver on our commitment to a welfare system based on the principles of engagement, participation and responsibility'.[52]

6.5 Income Management is intended to set in motion a series of positive behaviours that will be mutually reinforcing and, in this respect, the benefits for individuals, families and ultimately communities are expected to accrue over time. In the short-term, Income Management is designed to change spending patterns and increase the proportion of income managed welfare payments spent on priority items, while reducing the amount spent on excluded goods. In the medium-term, people may take up referrals to money management and financial counselling service providers; and areas such as educational attendance rates are anticipated to increase. In the long-term, it is the broader aims of engagement, participation and responsibility that are key goals.

6.6 The objectives of New Income Management can be broadly classified into four areas:

- addressing the behavioural or cultural aspects that may be associated with social disadvantage through reducing the amount of discretionary income available for items such as alcohol, tobacco, pornography and gambling services;
- enhancing the care and education of children by promoting socially responsible choices and behaviours;
- offering protection by reducing the likelihood that a person will be at risk of harassment or financial abuse in relation to their welfare payments; and
- improving financial literacy through helping welfare payment recipients to budget for their priority needs.

52 Macklin, J, 'Second Reading Speech: Social Security and other legislation amendment (welfare reform and reinstatement of Racial Discrimination Act) Bill 2009', [Internet]. FaHCSIA, 2009, available from <http://jennymacklin.fahcsia.gov.au/node/1245> [accessed 29 October 2012].

Key performance indicators

6.7 Performance measurement and reporting allows managers to provide sound advice on the appropriateness, success, shortcomings and future directions of programs. In order to effectively assess performance it is necessary that agencies have in place key performance indicators (KPIs) that enable the measurement and assessment of progress towards meeting relevant program objectives. KPIs should cover both the outputs being delivered and the outcomes being achieved, as they relate to the overall objectives.

6.8 In order to effectively measure progress towards meeting the objectives outlined in the Income Management legislation it is important to have an understanding of the specific desired results. The evaluation framework lists the desired results from Income Management as being:

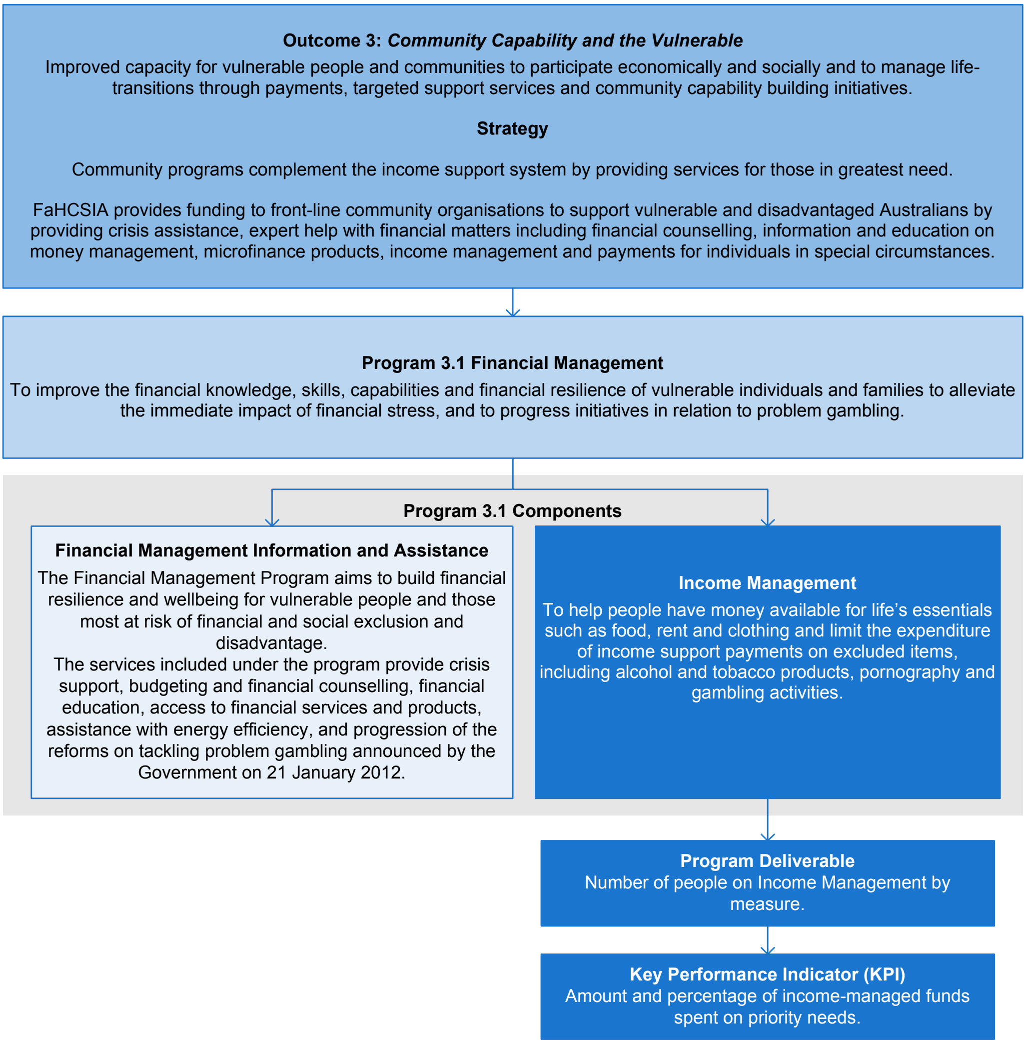
- more spending on priority needs;
- less spending on excluded goods;
- reduction in immediate hardship of individuals and families;
- more responsible parenting and better outcomes for children including nutrition and education;
- increased financial management skills and capacity to save; and
- greater levels of positive economic and social participation and responsibility.[53]

6.9 FaHCSIA's 2012–13 Portfolio Budget Statements (PBS) includes Income Management under Outcome 3: *Community Capability and the Vulnerable* and Program 3.1: *Financial Management*, as outlined in Figure 6.1.

53 Social Policy Research Centre, University of New South Wales, and Australian Institute of Family Studies, *Evaluation Framework for New Income Management (NIM)* [Internet]. FaHCSIA, 2010, available from <http://www.fahcsia.gov.au/sites/default/files/documents/evaluation_framework_nim.pdf> [accessed 29 October 2012], p.12.

Figure 6.1

Performance reporting framework



Source: ANAO analysis of information in FaHCSIA's 2012–13 PBS, pp. 64–69.

6.10 The objective for Income Management outlined in the PBS has a narrower focus than the *Social Security (Administration) Act 1999* and the Government's policy documents. The PBS objective focuses on the short-term objective of changing spending patterns, with the single KPI aiming to measure the amount of income managed funds spent on priority needs. Accordingly, the KPI is significantly limited in that it does not address the range of objectives in the Act or the desired results as outlined in the evaluation framework.

6.11 Further, Income Management objectives focus on bringing about behavioural changes and there is a focus on getting people onto Income Management and then managing them. What is less clear is how and when a person can be reasonably expected to exit the measure. Clarifying the objective and measures in this area is important, particularly given the wide spectrum of customer circumstances and resource-intensive character of Income Management. For example, some customers will exit Income Management as they begin to participate in employment or education, while others may never be likely to exit. Access to this information would facilitate the development of strategies to assist some customers to exit Income Management (refer paragraphs 3.47 to 3.53).

6.12 In comparison to the day-to-day management processes supporting the majority of services provided by DHS, Income Management is a complex and resource-intensive policy designed to achieve a range of outcomes for individuals, families and communities over time. To provide a basis to better assess the success or otherwise of Income Management in meeting its objectives (prior to the final results of the evaluation in 2014–15), there would be merit in FaHCSIA developing and trialling a range of KPIs which address the breadth of the objectives outlined in the legislation. One such improvement could be the inclusion of a KPI that measures the number of people who exit Income Management, and the main drivers for this outcome.

Annual Report

6.13 In accordance with the Government's budget reporting framework, FaHCSIA has included in its Annual Report results against both the program deliverable and the KPI as established in the PBS. Table 6.1 shows the program deliverable and KPI outlined in the 2010–11 and 2011–12 PBS and the associated results reported in the 2010–11 and 2011–12 Annual Report.

Table 6.1

2010–11 and 2011–12 PBS and Annual Report

<table>
<tr><th colspan="2">2010–11 Annual Report</th><th colspan="2">2011–12 Annual Report</th></tr>
<tr><td colspan="4">Program deliverable: Number of people on Income Management by category (2010–11 PBS), by measure (2011–12 PBS)</td></tr>
<tr><td colspan="2" rowspan="6">Total:18 583 (all categories)</td><td>Vulnerable measure:</td><td>139</td></tr>
<tr><td>Disengaged Youth/Long-term Welfare Payment Recipient:</td><td>13 312</td></tr>
<tr><td>Voluntary measure:</td><td>5 193*</td></tr>
<tr><td>Child Protection measure:</td><td>389*</td></tr>
<tr><td>Cape York Welfare Reform</td><td>149</td></tr>
<tr><td>Total:</td><td>19 182</td></tr>
<tr><td colspan="4">KPI: Amount and percentage of income-managed funds spent on priority needs</td></tr>
<tr><td colspan="2">Since Income Management began in mid-2007, goods or services to the value of $330 million have been purchased using the BasicsCard (based on main business activity of merchant).</td><td colspan="2">In 2011–12, goods or services to the value of $162 million were purchased using the BasicsCard (based on main business activity of merchant).</td></tr>
<tr><td>Main business activity</td><td>Amount and percentage</td><td>Main business activity</td><td>Amount and percentage</td></tr>
<tr><td>Food</td><td>$244 876 870 (74%)</td><td>Food</td><td>$118 066 714 (73%)</td></tr>
<tr><td>Clothing</td><td>$50 935 213(15%)</td><td>Clothing and footwear</td><td>$21 822 816 (14%)</td></tr>
<tr><td>Fuel</td><td>$19 169 396 (6%)</td><td>Fuel</td><td>$12 057 974 (7%)</td></tr>
<tr><td>Other</td><td>$15 846 119 (5%)</td><td>Other</td><td>$10 234 346 (6%)</td></tr>
<tr><td>Total:</td><td>$330 827 598</td><td>Total:</td><td>$162 181 850</td></tr>
</table>

Source: ANAO analysis of FaHCSIA's 2010–11 PBS and Annual Report and 2011–12 PBS and Annual Report.

Note: *Includes customers on Income Management in Western Australia as well as those under New Income Management in the Northern Territory.

Reporting against the key performance indicator

6.14 For the performance reporting structure in the PBS, FaHCSIA has developed a single indicator to measure the amount and percentage of income managed funds spent on priority needs. However, the data collected does not provide a basis to accurately measure the KPI and draw conclusions about the impact of Income Management.

6.15 DHS collects aggregate data on how much is spent at each merchant who has an active BasicsCard contract. For reporting purposes, each merchant is grouped according to their main business activity. For example, if a merchant predominantly sells food, all purchases made at that merchant will be classified as a 'food' purchase. However, the merchants included in 'food' category can also sell a range of non-food items, such as small electrical goods. This is particularly relevant for large supermarket chains that are categorised as a 'food' merchant despite also selling a wide variety of non-food related items.

6.16 In addition, the figures reported for each business activity are based on the amount spent via the BasicsCard and do not include funds spent through the direct deduction and manual payments options. While FaHCSIA acknowledges in its reporting some of the limitations of the data underpinning the results, these should be more clearly outlined so as to allow stakeholders to better understand the information presented.

6.17 FaHCSIA could improve the information provided in the Annual Report by:

- including, along with the BasicsCard expenditure, the amounts spent using direct deduction and manual payments; and
- providing a level of analysis that indicates how the result relates to the overall achievement of the program component and outcome. This could include a brief discussion on the amounts spent on the six identified high priority needs to determine if there have been changes in expenditure patterns.

Comparison of results contained in the FaHCSIA and DHS Annual Report

6.18 FaHCSIA and DHS both included information on the amount purchased using the BasicsCard in their 2011–12 Annual Reports. However, there was an inconsistency of $5 million in the reported figures, namely:

- FaHCSIA reported that 'goods and services to the value of $162 million were purchased using the BasicsCard'[54]; and
- DHS reported that 'more than $157 million had been spent using the BasicsCard'.[55]

[54] Department of Families, Housing, Community Services and Indigenous Affairs, Annual Report 2011-12, p.69, available at: http://www.fahcsia.gov.au/sites/default/files/documents/10_2012/fahcsia-2011-12-annual-report_0.pdf [accessed 7 December 2012].

[55] Department of Human Services, Annual Report 2011-12, p.91 available at: http://www.humanservices.gov.au/spw/corporate/publications-and-resources/annual-report/resources/1112/resources/dhs-annual-report-2011-12-full-report-web.pdf [accessed 7 December 2012].

6.19 The ANAO calculated, based on internal DHS management reports from the BasicsCard provider, that the total amount spent using the BasicsCard in 2011–12 was $163.8 million.

6.20 Annual reports are a key reference document and form part of the historical record.[56] The capture and reporting of accurate and consistent information is an important aspect of fulfilling public accountability obligations. The quality of source data, and inconsistencies in figures reported in the departments' Annual Reports reduces the level of reliance that stakeholders can place on the reported results and the performance of FaHCSIA and DHS in delivering Income Management services.

Recommendation No.2

6.21 To provide for a performance reporting framework which better measures the effectiveness of Income Management, the ANAO recommends that FaHCSIA:

- develop and trial a range of KPIs that align with the scheme's legislative objectives; and
- improve reporting against the existing KPI by including the amount of income managed funds spent across all payment types, and a brief analysis of how the results relate to the achievement of the scheme's objectives.

FaHCSIA response: Agree.

6.22 FaHCSIA notes the following:

> ... that the objectives of IM [Income Management] as set out in the legislation are as follows:
>
> - to reduce immediate hardship and deprivation by ensuring that whole or part of certain welfare payments is directed to meeting the priority needs of:
>   - the recipient of the welfare payment; and
>   - the recipient's children (if any); and
>   - the recipient's partner (if any); and

[56] Department of Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, [Internet] July 2011, p.3, available at: http://www.dpmc.gov.au/guidelines/docs/annual_report_requirements_2010-11_markedup.pdf [accessed 10 December 2012].

 – any other dependents of the recipient;

- to ensure that recipients of certain welfare payments are given support in budgeting to meet priority needs;
- to reduce the amount of certain welfare payments available to be spent on alcoholic beverages, gambling, tobacco products and pornographic material;
- to reduce the likelihood that recipients of welfare payments will be subject to harassment and abuse in relation to their welfare payments;
- to encourage socially responsible behaviour, including in relation to the care and education of children;
- to improve the level of protection afforded to welfare recipients and their families.

Therefore the proposal to develop KPIs will involve drawing on a range of datasets including those held by a range of Commonwealth and State departments, and may be constrained by availability of data and the complexity of separating out effects of income management from effects of other policy interventions.

Evaluation of New Income Management

6.23 New Income Management in the Northern Territory is one part of a range of social policy initiatives that will have an impact on individuals and communities. FaHCSIA's 2011–12 PBS stated:

> Income Management forms part of the Government's commitment to progressively reforming the welfare and family payment system to foster responsibility and to provide a platform for people to move up and out of welfare dependence.[57]

6.24 The roll-out of Income Management, particularly the compulsory measures, has been a controversial policy approach, with stakeholders expressing strong views both in favour and against the scheme. Supporters see it as an important tool for addressing the behavioural aspects of social disadvantage, while critics argue that it is: largely focused on Indigenous

[57] Department of Families, Housing, Community Services and Indigenous Affairs, *Portfolio Budget Statements 2011–12, Families, Housing, Community Services and Indigenous Affairs Portfolio,* FaHCSIA, Canberra, 2011, p.20.

people; stigmatising and interferes with the rights of people; and is expensive to administer without an adequate evidence base to support its continuation.

6.25 The *Social Security (Administration) Act 1999* highlights that Income Management is intended to bring about a range of changes in individual and community behaviour. However, difficulties that have arisen in evaluating the overall effectiveness of Income Management include the lack of baseline data for comparison purposes and the rapid roll-out of the measure under the NTER. Therefore, much of the evidence provided for or against Income Management has only been able to measure a specific aspect of what is a complex policy.

External evaluation

6.26 In order to help determine the impact of New Income Management in the Northern Territory, the Government has commissioned a consortium of experts to conduct a strategic longitudinal evaluation of the scheme. The consortium conducting the evaluation includes representatives from: the Social Policy Research Centre, the Australian Institute of Family Studies, and the Australian National University. One of the main purposes of the evaluation is to:

> Understand whether NIM [New Income Management] is a cost-effective model so as to inform future government decision making and social policy formulation for both the wider and the Indigenous communities.[58]

6.27 The three primary components or phases to the evaluation program are:

- Evaluation framework—the development of a framework for conducting the evaluation including the scope, methodology and approach to data collection. This process also included developing a set of desired results from Income Management based on the legislative objectives, policy statements and FaHCSIA program logic.
- Baseline study—to capture benchmark data that reflects the circumstances of individuals soon after the implementation of New Income Management.

[58] Social Policy Research Centre, University of New South Wales, Australian Institute of Family Studies, *Evaluation Framework for New Income Management (NIM)*, op. cit., p.16.

- Evaluation reports—a series of four reports, due annually, from the end of 2011.

6.28 To measure the effectiveness of Income Management in meeting its objectives, the four evaluation reports are structured around:

- a process evaluation focusing on the implementation of New Income Management and early progress in achieving short-term outcomes (first report);
- intermediate outcome reports that compare the results at the time against the baseline data, with the findings also being used to inform future analyses (second and third reports); and
- a final evaluation outcome, due in December 2014, which will include an overall assessment of the short-, medium- and, where possible, long-term impacts of New Income Management on individuals, their families and communities.

Evaluation timetable and budget

6.29 Following the provision of the evaluation framework in December 2010, the consortium was engaged by FaHCSIA to complete the baseline study and series of evaluation reports. The timetable and status of the key evaluation deliverables are outlined in Table 6.2.

Table 6.2

Evaluation timetable

Evaluation component	Original completion date	Revised completion date	Current status as advised by FaHCSIA
Baseline study	Mar 2011	Sept 2011, further revised to Jan 2012	Due to the delays in fieldwork and obtaining ethical clearances, the baseline study was incorporated into the *2011 Process and Early Impacts Evaluation Report*
Project plan	June 2011	June 2011	Revised version provided to FaHCSIA July 2011
Process and Early Impacts Evaluation Report	Dec 2011	Mar 2012	Publicly released 29 November 2012
Mid-term Evaluation Report	Dec 2012	Dec 2012	December 2012
Outcome Evaluation Report	Dec 2013	Dec 2013	December 2013

Evaluation component	Original completion date	Revised completion date	Current status as advised by FaHCSIA
Final Outcome Evaluation Report	May 2014	Dec 2014	December 2014

Source: FaHCSIA documentation.

6.30 Table 6.2 shows that the early milestones for the key evaluation deliverables were revised from the original program. In 2011, FaHCSIA noted that revised timings were due to:

- delays in obtaining ethical clearances from three separate Human Research Ethics Committees (shifting timelines for fieldwork towards the wet/ cultural season)[;and]
- difficulty in conducting fieldwork in remote areas during the wet season and the cultural obligation season in the Northern Territory.[59]

6.31 Since that time the evaluation has been further delayed. While the first evaluation report was delivered seven months later than anticipated, FaHCSIA has advised that it expects the remaining reports will meet the original timetable.

6.32 The total budget for the evaluation is $3.1 million. Table 6.3 provides a breakdown of the costs associated with each component of the evaluation.

Table 6.3

Evaluation cost breakdown

Evaluation component	Cost (including GST)
Evaluation Framework	$91 634
Baseline Study	$488 500
Main Evaluation	$2 564 539
Total cost of evaluation	**$3 144 673**

Source: ANAO analysis of FaHCSIA documentation.

Baseline study

6.33 When evaluating policies, in order to make comparisons and track changes over time, it is preferable to have data collected prior to

59 FaHCSIA, 'Change to milestone arrangements for the Evaluation of Income Management in the Northern Territory', 28 November 2011.

implementation. As Income Management was initially implemented in 73 discrete communities as part of the NTER, collecting 'pure' baseline data (that is to identify the circumstances and beliefs of people before the implementation of a policy) was not possible. Instead, the evaluation includes an early implementation snapshot, which reflects the circumstances of individuals soon after the implementation of New Income Management. Due to the difficulties in completing the early implementation snapshot, FaHCSIA and the consortium agreed that the work would be delivered in conjunction with the first evaluation report.

6.34 The implementation snapshot study involved the collection and analysis of data from a range of sources including DHS staff, Income Management merchants, individuals on New Income Management and money management and financial counselling service providers. For comparison purposes, data was also collected from a group of clients from another jurisdiction with similar demographics.

Process and Early Impacts Evaluation Report

6.35 The first of the evaluation reports, provided to the department in July 2012, was released publicly on 29 November 2012. In response to the findings, the Australian Government announced that it is making changes to improve the delivery of Income Management in the Northern Territory. These changes will apply from 1 July 2013.[60] Given the relatively early stages during which the work was undertaken (particularly compared to when the data was collected for the baseline early implementation snapshot), the conclusions drawn are only based on the first 12 months after full implementation. In that respect, the report indicates that New Income Management has delivered a diverse set of impacts and outcomes (that is positive, negative and little change) for people on the scheme.

Future evaluation reports

6.36 The Government has provided funding for New Income Management in the Northern Territory until the end of June 2014. In addition to the Northern Territory, Income Management has also been operating in a number of other areas in Australia, such as the Kimberley region in Western Australia

[60] Macklin, J (Minister for Families, Community Services and Indigenous Affairs and Minister for Disability Reform), Income Management in the Northern Territory, media release, Parliament House, Canberra, 29 November 2012.

and Cape York, for some time. Most recently, from 1 July 2012, Income Management was extended to five new trial sites in disadvantaged locations across Australia.

6.37 If the intermediate evaluation reports due at the end of 2012 and 2013 are completed on time, they will be a valuable input to the Government's consideration of the future for Income Management in the Northern Territory beyond June 2014.

6.38 More broadly, while focused on the Northern Territory, the findings from the evaluation program (particularly the final report) can be expected to contain important information for measuring the overall effectiveness of Income Management as a social policy approach. Accordingly, the results and insights from the evaluation program will inform the Government's consideration of the success of the policy approach and its future direction.

Conclusion

6.39 The *Social Security (Administration) Act 1999* outlines the objectives of Income Management. As the department responsible for policy advice and reporting on all Income Management measures, FaHCSIA has developed a performance reporting framework that is outlined in its Portfolio Budget Statements (PBS) and reported in the Annual Report. The reporting framework in the PBS has a narrower focus than the objectives outlined in the Act and is measured by a single key performance indicator (KPI) relating to amounts spent via the BasicsCard.

6.40 The KPI is limited in its scope as it only includes spending via the BasicsCard, and does not provide a comprehensive view of whether Income Management is meeting its objectives. To provide a stronger basis for measuring the impact of New Income Management, there would be value in FaHCSIA developing and trialling additional KPIs that provide information on the effectiveness of Income Management in meeting its legislative objectives. In addition, reporting against the existing KPI could be improved by including spending relating to direct deduction and manual payments and a brief analysis of how the results relate to the achievement of the scheme's objectives.

6.41 New Income Management is one of a range of social policy initiatives which will have an impact on individuals and communities and is based, in part, on bringing about change in individual behaviour (including encouraging socially responsible behaviour and reducing harassment). However, measuring the effectiveness of Income Management in realising changes in the behaviour of individuals is difficult for a number of reasons, including the lack of baseline data for comparison purposes.

6.42 Income Management is a high-profile measure that has drawn a wide variety of stakeholder views on the merits of the policy. Creating and sustaining behavioural change is not easily measured in the short-term and, to that end, the Government has commissioned an external evaluation to help determine the impact of New Income Management in the Northern Territory. To date, an early implementation study and one of a series of four annual reports (which is under consideration by the Government) have been completed. While focused on Income Management in the Northern Territory, the evaluation findings, particularly the final report due in December 2014, can be expected to contain important information for measuring the overall effectiveness of Income Management as a social policy approach. Accordingly, if the evaluation is able to capture sufficiently reliable data and adequately address the key aspects of Income Management, it will inform the Government's consideration of the policy and its future direction.

Ian McPhee	Canberra ACT
Auditor-General	31 January 2013

Appendices

Appendix 1: Agency responses to proposed report

Australian Government

Department of Families, Housing, Community Services and Indigenous Affairs

Finn Pratt PSM
Secretary

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Dr Ioannou

Thank you for your letter of 13 November 2012 and the opportunity to respond to the proposed audit report on the *Administration of New Income Management in the Northern Territory*.

The Department agrees with Recommendation Two proposed in the report. The Department of Families, Housing, Community Services and Indigenous Affairs will continue to work with the Department of Human Services to improve the Key Performance Indicators for Income Management.

A short response to the recommendation is provided at **Attachment A**, as requested.

I understand the Department of Human Services will provide a response to Recommendation One.

Should you wish to discuss this matter further, please contact Ms Liz Hefren-Webb, Branch Manager, Welfare Payment Reform on 02 624 1736 or [redacted]

Yours sincerely

Finn Pratt

6 December 2012

Attachment A

Response to the Section 19 report on the Administration of *New Income Management in the Northern Territory Audit*

Recommendation No.2

To provide for a performance reporting framework which better measure the effectiveness of Income Management, the ANAO recommends that FaHCSIA:

- Develop and trial a range of KPIs that align with the scheme's legislative objectives; and
- Improve reporting against the existing KPI by including the amount of income managed funds spent across all payment types, and a brief analysis of how the results relate to the achievement of the scheme's objective.

FaHCSIA response:
Agree.

FaHCSIA notes that the objectives of IM as set out in the legislation are as follows:

- to reduce immediate hardship and deprivation by ensuring that the whole or part of certain welfare payments is directed to meeting the priority needs of:
  - the recipient of the welfare payment; and
  - the recipient's children (if any); and
  - the recipient's partner (if any); and
  - any other dependents of the recipient;
- to ensure that recipients of certain welfare payments are given support in budgeting to meet priority needs;
- to reduce the amount of certain welfare payments available to be spent on alcoholic beverages, gambling, tobacco products and pornographic material;
- to reduce the likelihood that recipients of welfare payments will be subject to harassment and abuse in relation to their welfare payments;
- to encourage socially responsible behavior, including in relation to the care and education of children;
- to improve the level of protection afforded to welfare recipients and their families.

Therefore the proposal to develop KPIs will involve drawing on a range of datasets including those held by a range of Commonwealth and State departments, and may be constrained by availability of data and the complexity of separating out effects of income management from effects of other policy interventions.

Australian Government

Department of Human Services

Malisa Golightly PSM
Acting Secretary

Ref: EC12/621

Dr Tom Ioannou
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Ioannou

I am writing to you in response to the Section 19 report on the *Administration of New Income Management in the Northern Territory Audit*. Thank you for the opportunity to comment on the proposed report.

The Department of Human Services (the department) agrees with Recommendation No. 1 outlined in the report. The department will work collaboratively with the Department of Families, Housing, Community Services and Indigenous Affairs on developing performance indicators to improve internal monitoring and reporting on Income Management.

Attachment A to this letter details our response to the draft report and its recommendations.

Attachment B outlines some further comments for the attention of the Auditor General. These are not intended as formal comments for publication in the report.

If you would like any further clarification on these comments please contact Roxanne Ramsey, General Manager, Indigenous, Regional and Intensive Services Division on [redacted]

Yours sincerely

M. Golightly

Malisa Golightly

11 December 2012

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Australian Government
Department of Human Services

Attachment A

Response to the Section 19 report on the *Administration of New Income Management in the Northern Territory Audit*

Recommendation No.1
To improve the internal monitoring and reporting of information on Income Management, the ANAO recommends that DHS develop performance indicators, including financial benchmarks, which provide a basis for measuring the efficiency and effectiveness of the service delivery approach.

DHS response:
Agree

humanservices.gov.au

Australian Government
Department of Human Services

Summary of comments for the follow-up report brochure

The Department of Human Services (the department) welcomes this report and considers that implementation of its recommendation will enhance the administration of Income Management in the Northern Territory.

The department agrees with Recommendation No. 1 outlined in the report. The department will work collaboratively with the Department of Families, Housing, Community Services and Indigenous Affairs on developing performance indicators to improve internal monitoring and reporting on Income Management.

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