

The Auditor-General
Audit Report No.13 2011–12
Performance Audit

Tasmanian Freight Equalisation Scheme

Department of Infrastructure and Transport
Department of Human Services

Australian National Audit Office

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Canberra ACT
22 November 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Infrastructure and Transport and the Department of Human Services with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Tasmanian Freight Equalisation Scheme*.

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

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Abbreviations

ANZSIC	Australian and New Zealand Standard Industrial Classification
BITRE	Bureau of Infrastructure, Transport and Regional Economics
DHS	Department of Human Services
DIT	Department of Infrastructure and Transport
DOTARS	Department of Transport and Regional Services (now DIT)
KPI	Key Performance Indicator
MoU	Memorandum of Understanding
QA	Quality Assurance
TBUS	Tasmanian Bulk Upload System
TFES	Tasmanian Freight Equalisation Scheme

Glossary

Agent	Companies appointed under TFES to apply for assistance on behalf of their customers. Companies engaged in supplying goods to the agriculture, forestry and fishing industries can be appointed as agents; companies primarily involved in freight forwarding or freight logistics cannot be appointed.
ANZSIC	The Australian and New Zealand Standard Industrial Classification (ANZSIC) was jointly developed by the Australian Bureau of Statistics and Statistics New Zealand, and provides a basis for the standardised collection, analysis and dissemination of economic data on an industry basis for Australia and New Zealand. ANZSIC is used by government agencies and industry organisations for various administrative, regulatory, taxation and research purposes.
Centrelink	<p>Centrelink is a program within the Department of Human Services (DHS) that delivers a range of payments and services for retirees, the unemployed, families, carers, parents, people with disabilities, Indigenous Australians, and people from diverse cultural and linguistic backgrounds, and provides services at times of major change. Prior to July 2011, Centrelink delivered these payments and services as a separate agency. In July 2011, the <i>Human Services Legislation Amendment Act 2011</i> integrated the services of Medicare Australia and Centrelink into DHS.</p> <p>In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.</p>

Door-to-door	An entire transport task from land-based pick-up point to land-based drop-off point.
Dry	Non-refrigerated container, and goods not requiring refrigeration.
Freight forwarder	Usually the company responsible for moving the goods.
Furneaux Group	The Furneaux Group is a group of more than 50 islands situated in the eastern Bass Strait, of which Flinders Island is the largest.
High density freight	High density or heavy cargo which when efficiently packed has a stowage factor of 1.1 cubic metre or less per tonne.
Intermodal	A transport task that utilises more than one transport mode (for instance, road, rail or sea).
Intrastate component	TFES eligible goods shipped between the mainland of Tasmania and either King Island or the Furneaux Group.
Non-bulk goods	Goods that have some form of unitisation or packaging and that are not shipped loose in a ship's hold or tanks.
Northbound component	TFES eligible goods shipped from the mainland of Tasmania to the mainland of Australia.
Reefer	Refrigerated container that has the same external dimensions as a dry container, with a built-in refrigerator unit. A reefer is usually more expensive to ship due to the requirement to supply power to the container at all times and the regular temperature monitoring.
Road freight equivalent	For TFES, the amount that has been calculated as the equivalent cost of transporting goods by road over the same distance, in this case the distance across Bass Strait.
Shippers	Companies or individuals that incur the cost of shipping TFES-eligible goods.

Southbound component	TFES-eligible goods shipped from the mainland of Australia to the mainland of Tasmania.
<i>Staff Online</i>	In the context of this report, Centrelink IT system used to process TFES claims, calculate assistance amounts and store claimants' information. <i>Staff Online</i> is also used for the administration of other Centrelink programs.
Standard shipping container	Commercial shipping containers used to freight goods via road, rail or sea. The containers most commonly used are the 6.1 metre (TEU – Twenty-foot Equivalent Unit) box and the 12.2 metre (forty foot) box.
Tasmanian Bulk Upload System (TBUS)	Centrelink's facility provided to claimants to allow the electronic submission of TFES claims. Once registered, claimants enter information for each shipment into an online spreadsheet template, which is prefilled with the appropriate data input formulas, then mail the claim's supporting documentation to Centrelink.
Wharf-to-wharf	The sea freight portion of a transport task, which is the only portion that is eligible for TFES assistance.

Summary and Recommendations

Summary

Introduction

1. The Australian Government has provided financial assistance to shippers of freight between Tasmania and mainland Australia under the Tasmanian Freight Equalisation Scheme (TFES, or the Scheme) since July 1976. The Scheme aims to assist in alleviating the sea freight cost disadvantage incurred by shippers¹ of eligible non-bulk² goods moved between Tasmania and the mainland of Australia by sea. The Scheme's objective is to:

... provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.³

2. TFES is an executive scheme established under the *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme* of the Minister for Infrastructure and Transport. The Ministerial Directions establish the structure of the program's various components, the eligibility criteria for claimants and goods, and the parameters used to determine the levels of assistance provided for different freight scenarios.

3. The administration of the Scheme is shared between the Department of Infrastructure and Transport (DIT) and the Department of Human Services (DHS).⁴ Between 2002 and 2011, this arrangement was established in a Memorandum of Understanding (MoU) between the then Department of Transport and Regional Services (DOTARS, now DIT) and Centrelink.⁵ In August 2011, DHS and DIT signed a new Head Agreement.⁶ DIT (as the

¹ Shippers or claimants are companies and individuals that incur the costs of shipping eligible goods.

² Goods that have some form of unitisation or packaging and that are not shipped loose in a ship's hold or tanks.

³ Department of Infrastructure and Transport website, <<http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/scheme.aspx>> [accessed 28 March 2011].

⁴ In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.

⁵ Centrelink and the Department of Transport and Regional Services, *Memorandum of Understanding between Centrelink and DOTARS*, August 2002.

⁶ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011.

principal agency for the Scheme) is responsible for policy formulation and advice, and for the overall management of the program. DHS (as DIT's agent) is responsible for the day-to-day administration of the Scheme, which it delivers, through Centrelink, as part of the Tasmanian Transport Programs (comprising TFES, the Tasmanian Wheat Freight Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme). Specifically, Centrelink assesses claims for TFES assistance, makes payments to eligible claimants, and conducts a number of quality assurance, compliance and review activities designed to support payment accuracy.

4. The Scheme is demand driven, and while an annual budget is set for the total assistance available for claimants, in practice there is no upper limit to the total annual payments that could be made to claimants. In 2010–11 the budget for the Scheme was \$114.4 million. The combined forward estimate for the Scheme over the four years to 2013–14 is \$485.6 million.

5. In 2010–11, Centrelink received \$1 million (including GST) in revenue from DIT to deliver the Tasmanian Transport Programs.⁷ The Tasmanian Transport Programs are delivered by a team of Centrelink officers located in Hobart, with support from Centrelink National Office in Canberra for program and relationship management issues with DIT. The number of team members has varied between 10 and 20 over time. Support is also provided by an IT development and maintenance team within National Office.

TFES eligibility and claiming rules

6. TFES comprises three components (northbound, southbound and intrastate⁸ sea freight), and three special categories (sports persons, professional entertainers and brood mares). All claimants are required to submit a claim form containing up to 17 fields of information relating to the goods shipped, and the majority of claimants must also attach supporting freight documentation to their claim forms. Some claimants must also register their businesses and the goods for which they wish to make a claim before a claim may be submitted.

⁷ In addition, a one-off funding of \$220 000 (GST inclusive) was provided in the last quarter of 2010–11 by DIT to Centrelink to eliminate the backlog of claims. Centrelink has also received \$1.6 million from DIT since 2007–08 for the development and maintenance of a new IT system, *Staff Online* (see Glossary).

⁸ 'Intrastate' freight refers to freight between the main island of Tasmania and either King Island or the Furneaux Group. The Furneaux Group is a group of more than 50 islands situated in the eastern Bass Strait, of which Flinders Island is the largest.

7. The eligibility criteria and payment calculations for the Scheme are complex, reflecting the large number of variables that could affect the level of freight disadvantage facing Bass Strait shippers. Separate program components cover the payment of freight assistance depending on the source and destination of the relevant goods. Each of these components establishes different eligibility requirements for claimants and for goods, and these requirements also affect the level of assistance that may be paid to eligible claimants. Factors taken into consideration when determining whether a particular claimant is eligible for assistance include:

- the type of goods, including whether the goods are 'high density'⁹, refrigerated, or transported in a packaged or loose form;
- the origin and end use of the goods, with particular rules for the mining, agriculture, forestry and fishing industries; and
- the destination of the goods, including whether goods will be transported to other Australian states, exported overseas or returned to Tasmania.

TFES claimant and claim profile

8. In 2010–11, 1544 businesses and individuals lodged a total of 11 233 claims for assistance under the Scheme, resulting in the payment of a total of \$100 million to eligible claimants. Three industries – the food and beverage industry; the agriculture, forestry and fishing industry; and the wood and paper industry – constitute the largest groups of claimants both in terms of amount of assistance received and number of claimants accessing the Scheme.

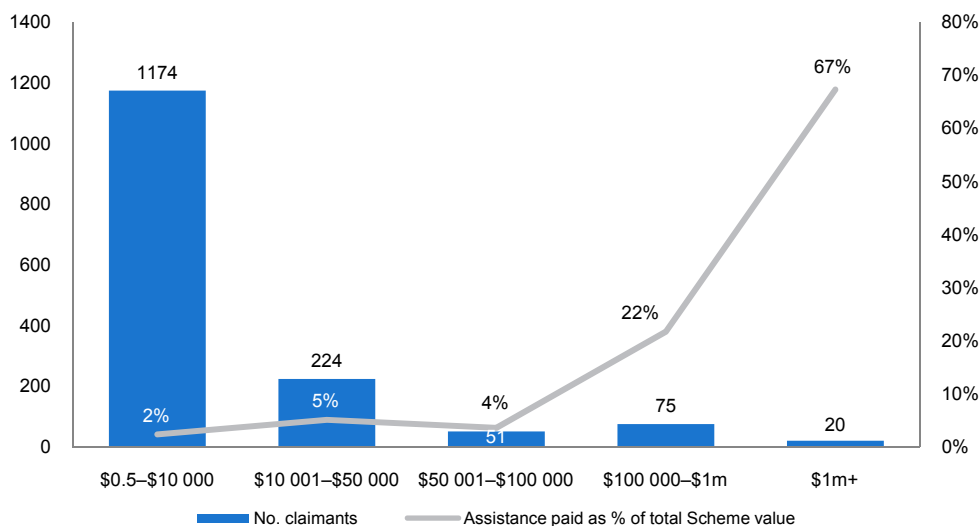
9. The number of claims paid has increased steadily between 2004–05 (6377 claims paid) and 2009–10 (12 929 claims paid). Concurrently, the average amount of assistance paid per claim has decreased significantly, from approximately \$14 000 in 2004–05 to \$7735 in 2009–10. These figures reflect that, while the number of claimants and claims has been progressively increasing, the value of the claims submitted has been, on average, lower than in previous years. These two factors combined to lower the overall average value of claims over this period. There has been a small reversal in 2010–11,

⁹ High density or heavy cargo which when efficiently packed has a stowage factor of 1.1 cubic metre or less per tonne. Volume is a more important cost consideration for sea freight than weight.

with the number of claims paid dropping slightly to 10 094, and the average claim value rising to \$9907.

10. The amount of assistance paid varies greatly between claimants (Figure S 1). In 2010–11, the largest annual total of assistance paid to a single claimant was \$15.2 million, and the smallest annual total was 54 cents. A small number of claimants receive the majority of assistance paid under the Scheme. In 2010–11, one per cent of claimants (20 claimants) received 67 per cent of the total value of the assistance paid under the Scheme, with an average claim value of \$3.4 million. Five of these 20 claimants, all businesses from the food and beverage industry, received in total \$32.5 million of the \$100 million paid under the Scheme in 2010–11.

Figure S 1
Distribution of TFES assistance, 2010–11



Source: ANAO analysis

Recent reviews of the Scheme

11. There have been a number of reviews of the processes underlying the Scheme’s administration, and of the parameters used to determine eligibility and payment amounts for each component. In 2006, a review conducted by the Productivity Commission concluded that ‘there [was] no sound underlying economic rationale for the Scheme’ and that the Scheme was affected by

'significant design and operational problems'.¹⁰ Following the Australian Government's decision that the Scheme would continue unchanged, the Productivity Commission made a series of recommendations aimed at improving the rules for claiming TFES payments and the overall administration of the Scheme.

12. In 2008, to address one of the Productivity Commission's recommendations, the Bureau of Infrastructure, Transport and Regional Economics (BITRE) reviewed the Scheme's assessment and payment methodology, making a number of suggestions to update the Scheme's parameters.¹¹ The Australian Government subsequently announced that it considered that 'adjustments to the parameters would significantly reduce overall assistance levels resulting in a significant negative impact on Tasmanian businesses at a time of global financial uncertainty'¹², and decided to maintain the existing levels of assistance by continuing to use the parameters that were set in 1996–97.¹³

13. In late 2010, DIT commenced a review to identify opportunities to simplify the Scheme. The 'Simplification Review' was used to inform advice provided by DIT to its Minister in February 2011 to prepare for the 2011–12 Federal Budget. The advice indicated that:

- the purpose and Ministerial Directions for the Scheme are dated after 35 years of operation leading to the potential that payments are made to those who are not the intended beneficiaries;
- TFES complexity contributes to errors in assessing eligibility and payments; [and]
- large numbers of claims attract very small payments.¹⁴

¹⁰ The inquiry covered TFES and the Tasmanian Wheat Freight Scheme. *Tasmanian Freight Subsidy Arrangements, Productivity Commission Inquiry Report No. 39*, 14 December 2006, pp. iv and xxii.

¹¹ BITRE, *Tasmanian Freight Scheme Parameter Review*, Department of Infrastructure and Transport, 2008.

¹² Hon Anthony Albanese MP, *Freight Subsidy Schemes to Continue Ongoing Financial Assistance for Tasmanian Industry*, Media Release, 6 November 2008, <http://www.minister.infrastructure.gov.au/aa/releases/2008/November/AA164_2008.aspx> [accessed 6 April 2011].

¹³ BITRE completed another parameter review in November 2010, and reiterated that the sea freight disadvantage had decreased for many Bass Strait shippers due to the increase in road freight rates. The parameter review also suggested that, in this context, TFES parameters should be updated but that consequently, payments to most shippers would be significantly reduced. BITRE, *Tasmanian Freight Scheme Parameter Review*, Department of Infrastructure and Transport, November 2010, p. v (unpublished).

¹⁴ Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme – ANAO Audit, Scheme and Parameter Review and MoU with Centrelink*, eWorks number 00380-2011, February 2011.

14. The advice also included a number of recommendations to simplify the Scheme and address the issues identified during the Simplification Review. Nevertheless, no ministerial decisions have subsequently been made in relation to potential changes to the structure of the Scheme's components or to the parameters used to determine eligibility and payment amounts. The Scheme's funding levels were also maintained in 2010–11.

Audit objective and scope

15. The objective of the audit was to assess the effectiveness of DIT's and Centrelink's¹⁵ administration of TFES.

16. The audit scope included the arrangements established by DIT and Centrelink to administer the Scheme, including activities to promote claimant access, and to assess and pay the claims submitted by claimants. The audit also examined the program management arrangements established by the two agencies to support the delivery of the Scheme. The agencies' systems and processes were assessed in terms of three high-level audit criteria:

- the Scheme is accessible to eligible claimants;
- claims are assessed and paid in a transparent, accurate and timely manner; and
- program management arrangements (including evaluation, reporting and monitoring activities) support the delivery of the Scheme.

Overall conclusion

17. After more than 30 years of operation, the Tasmanian Freight Equalisation Scheme (TFES, or the Scheme) is a well-established program in the Tasmanian economy, providing a total of \$100 million in assistance to 1544 claimants in 2010–11. For a range of businesses and individuals, the Scheme plays an important role subsidising the cost of sea freight. Over time, TFES' operating rules and the parameters used to determine eligibility and assistance payments have become more complex. Multiple reviews have recommended simplification in order to remove some of the main design and operational complexities and to improve the administration of the Scheme. While some changes have been made to the Scheme's operational

¹⁵ From 1 July 2011, Centrelink became a master program within DHS.

arrangements, successive governments have decided to retain the underlying rules and parameters without change since 1998. A further review of the Scheme has been announced for 2011–12.

18. As a small industry support program, TFES is fundamentally different to the large social welfare programs typically administered by Centrelink. Accordingly, Centrelink, in collaboration with DIT, established distinct arrangements to administer the Scheme. While these arrangements have been reasonably effective in facilitating access to the Scheme for claimants, there are shortcomings in several key areas of program administration, which include the absence of a risk-based approach to claims processing, limitations in the compliance and quality assurance arrangements, and weaknesses in the management of claimants and claims information and in the monitoring of TFES IT data integrity.

19. Between 2004–05 and 2010–11, the number of TFES claims has increased by 58 per cent, and the number of claimants by 19 per cent. This, together with the Scheme's longevity and widespread recognition among relevant stakeholders, point positively to the Scheme's accessibility. Several hundred of these new claimants have engaged a third party organisation to apply for assistance on their behalf on a fee-for-service or commission basis. While clearly reflecting business decisions on the part of these claimants, this development is also an indication of the complexity of the Scheme's arrangements. The increase in the number of claims and claimants has also affected the timeliness of TFES claims processing. Between July 2009 and June 2011, Centrelink met their monthly 15 and 30 days processing targets only nine times. Claim processing timeliness was an area of focus for questioning of departmental officers from DIT and Centrelink during several relevant Senate Estimates hearings in 2009 and 2010. DIT's one-off increase to Centrelink's operational budget, and Centrelink's work to reduce a backlog of claims, have resulted in a significant improvement in the time taken to process claims, with the number of claims processed in less than 15 days increasing from 57 per cent to 79 per cent between 2009–10 and 2010–11.

20. The Scheme's internal appeal and review mechanisms are appropriate and operating effectively, and in March 2011, Centrelink established a system to receive feedback from claimants, including complaints. There is scope for more effective communication with program stakeholders about current appeal and review arrangements. This includes the need to highlight that a two-tier Centrelink-DIT review process is in place, and to make clear to

claimants that they are entitled to seek a review by the Commonwealth Ombudsman following a decision by Centrelink or DIT.

21. At the time of audit fieldwork, Centrelink's approach to the assessment of claims was characterised by time- and labour-intensive processes which gave equal attention to all claims. As a result, most of Centrelink's operational budget was directed toward managing claims that represented only a small fraction of the Scheme's overall financial risk. Further, Centrelink did not have a systematic approach in place to check and update key information used to support the accuracy of claims assessments and payment calculations. Centrelink had also implemented a pre-payment quality assurance process, but did not analyse the results of this process in order to identify systemic issues and inform business management decisions. Centrelink's post-payment processes to monitor and report on payment accuracy were also limited, and the compliance activities for the Scheme were restricted and not fully effective.

22. In August 2011, DHS and DIT signed a new Head Agreement, replacing an earlier Memorandum of Understanding first signed in 2002. The Head Agreement took into account this audit's preliminary findings, establishing more clearly the framework of responsibilities and expectations for the delivery of TFES. Nonetheless, some important elements of program administration are not covered in the new Agreement, or are left open to future improvements and modifications. To help ensure that the benefits anticipated by the new Agreement are fully realised, both agencies will need to maintain the momentum necessary to pursue the development and implementation of changes in these areas.

23. To support the agencies' efforts to make ongoing improvements to administration arrangements for TFES, the audit has made three recommendations. These recommendations concern improving the accuracy of information used to calculate payments; strengthening quality assurance activities; and developing more effective integrity testing arrangements for the *Staff Online* system.

Key findings

Claimants' access to the Scheme and rights of review (Chapter 2)

24. As DIT's agent under the terms of the Head Agreement, Centrelink (now DHS) has primary responsibility for providing the public and potential claimants with access to information about TFES, and uses its website as the main channel to promote TFES. Centrelink also conducted a small number of

site visits aimed at helping specific claimants lodge their claims. Although promotion and stakeholder activities have decreased in frequency and diversity over time, overall, the longevity of the Scheme has created a high level of awareness among relevant Tasmanian businesses and industries.

25. A survey conducted by the ANAO of a sample of TFES claimants¹⁶ revealed good levels of satisfaction with Centrelink's customer service and with claimants' knowledge about the Scheme's eligibility requirements. Nonetheless, the survey also pointed to the need for greater transparency of payment calculation, with a large proportion (40 per cent) of respondents indicating that they had difficulties understanding TFES payment calculations.

26. An indicator of the Scheme's complexity, and of the extent to which this complexity is reflected in the arrangements for making TFES claims, is the emergence of a third party organisation that makes claims for TFES assistance on behalf of eligible businesses and individuals on a fee-for-service or commission basis. An analysis of claims data indicates that the activities of the third party organisation resulted in a 16 per cent increase in the number of TFES claimants between 2007–08 and 2009–10. In 2010–11, this organisation was also the largest claimant in terms of number of claims paid (30 per cent of all claims that year) and the second largest claimant in terms of assistance paid (representing nine per cent of the value of assistance paid through the Scheme that year).

27. DIT and Centrelink had implemented appropriate internal appeal and review mechanisms (including providing claimants with opportunities for more than one review of any decision). In March 2011, Centrelink established a formal mechanism to receive claimants' feedback, including complaints, and the new 2011 Agreement between DHS and DIT requires DHS to report to DIT on the number and type of customer complaints. There is scope to provide more comprehensive advice to TFES claimants about current review and appeal arrangements, and to highlight claimants' right to seek a review by the Commonwealth Ombudsman.

28. Between July 2009 and June 2011, Centrelink met its monthly timeliness Key Performance Indicators (KPIs) less than half the time (nine months out of 24). The time taken by Centrelink to process claims, and the potential impact

¹⁶ In March 2011, the ANAO sent an email survey to 925 TFES claimants. Two hundred and twenty-five claimants (28 per cent of all surveyed) responded to the survey.

of inconsistent processing and payment times on businesses, were raised as issues through relevant Senate Estimates hearings in 2009 and 2010, the media, direct representations to the agencies and in the TFES claimants survey conducted by the ANAO. Centrelink largely attributed the backlog to the year-on-year increase in the number of TFES claims between 2004–05 and 2009–10. A decrease in the number of claims in 2010–11, and a one-off increase to Centrelink’s operational budget for administering the Scheme that year, impacted positively on Centrelink’s timeliness performance.

Processing claims for assistance (Chapter 3)

29. Under the terms of the Head Agreement, DHS, through Centrelink, has primary responsibility for the processing of claims, including assessment and payment activities. TFES is a scheme with a set of complex eligibility and claiming requirements, covering a large and diverse range of goods, businesses and individuals, and comprising several distinct components to which different rules apply. For the major components of the Scheme, Centrelink has implemented standardised claiming requirements and processes for claimants. While some claimants undertake a pre-claiming business registration process, all claimants are required to submit the same shipment information using a single form and there are minimal variations in the claiming requirements to access TFES assistance.

30. Since 2009, Centrelink has been using a new IT system called *Staff Online* to process TFES claims, which automatically calculates the assistance payable for each shipment and the total assistance for each claim.¹⁷ *Staff Online* (and other separate databases) also stores extensive information relating to particular goods and businesses, mostly based on information provided by claimants over the years. This stored data provides an essential repository of knowledge that assessors can draw upon when assessing the amount of assistance to be paid.

31. While the IT system provides essential support to assessors, Centrelink’s approach to assessing TFES claims remains focused on processes that involve extensive manual upfront checks and verification of claim and claimant information. Almost all claims are captured within this time- and resource-intensive process, which relies heavily on the experience of assessors,

¹⁷ A single claim can include multiple shipments eligible for assistance.

on the claimants' vigilance, and on the accuracy of the goods and businesses information kept on file by Centrelink. Using out-of-date or incorrect goods and businesses information has a direct impact on the accuracy of claim assessments and the amount of assistance payable. Nonetheless, until August 2011, there was no systematic process in place to ensure that the information kept on file about goods and businesses remained current.

32. While the new Head Agreement introduces a provision to review some of this information every 12 or 24 months, in the absence of an implementation plan, the intended impact of this provision may not be realised in a timely fashion. Also, as the relevant provision only relates to some of the information held in databases that is required for the calculation of assistance, it only partially mitigates the risk that out-of-date or incorrect information will affect payment accuracy. There is scope for DIT and Centrelink to develop a more effective, risk-based approach to identifying the TFES information held in relevant databases and on file that could substantially affect payment accuracy, and to reviewing and updating this information.

Calculating and paying assistance (Chapter 4)

33. Agencies providing assistance under Australian Government programs seek to calculate and pay accurate amounts to eligible claimants. However, it is likely that a number of payments will be assessed and paid incorrectly, as a result of either administrative or customer errors. In addition to implementing measures to keep pre-payment errors to a minimum (including quality assurance activities), agencies must also develop risk-based post-payment administrative processes to monitor and report on payment accuracy, and to detect and recover incorrect payments. For TFES, the responsibility for the calculation and delivery of accurate payments lies with Centrelink. Nonetheless, DIT remains accountable for the quality of the program and for making effective use of Commonwealth resources.

34. While Centrelink implements a pre-payment quality assurance process, the individual results are only used to manage assessors' performance, and do not create an incentive to identify or resolve inaccurate payments. Based on the analysis of the quality assurance results, the ANAO identified that between nine and 19 per cent of all TFES claim assessments are likely to contain a

critical error.¹⁸ Such analysis is not conducted by Centrelink and, consequently, is not used to identify systemic issues and inform business management decisions.

35. Post-payment, Centrelink relied on three mechanisms to detect incorrect payments: compliance activities; assessors' vigilance in the course of their work; and claimants' self-reporting. Centrelink recorded the individual incorrect payments thus identified on *Staff Online*, but until August 2011, did not monitor, analyse or report on identified incorrect payments.¹⁹

36. These mechanisms, combined, did not provide enough confidence that all substantial incorrect payments could be identified: compliance activities were limited, not always effective and did not target the areas of highest financial exposure; and Centrelink did not provide the support and incentives that would have ensured assessors' and claimants' effective contribution to the detection and reporting of incorrect payments. Further, claimants are not necessarily in a strong position to identify and report errors: the ANAO's survey of claimants identified that only 27 per cent of respondents agreed that understanding how TFES payments are calculated is easy. Centrelink also did not always implement appropriate rules when entering and managing data relating to incorrect payments on *Staff Online*, and did not conduct routine data integrity checks to identify anomalies in data recording. Consequently, while the number and value of identified incorrect payments for 2009–10 and 2010–11 remained at modest levels (less than two per cent of total assistance paid annually), tightening the review and compliance processes would help Centrelink improve its confidence in the integrity of payments made under TFES.

37. Once Centrelink's officers have assessed and entered the claims data on *Staff Online*, the system automatically applies the parameters and formula prescribed by the Scheme's Ministerial Directions to calculate the amount of assistance payable. This amount is then transferred to Centrelink's payment system *Infolink*, before being forwarded to the claimants' bank account. The tests conducted by the ANAO provided a level of confidence that the parameters and formula built into *Staff Online* were correct and consistent with

¹⁸ Critical errors are defined by Centrelink/DHS as having the potential to have a material impact on the assistance calculation and the assistance paid to the claimant.

¹⁹ The new Head Agreement between DHS and DIT now requires DHS to report on over- and underpayments.

the Ministerial Directions.²⁰ The 2009–10 and 2010–11 TFES payments had also been correctly transferred from *Staff Online* to *Infolink*.

Program management arrangements (Chapter 5)

38. As previously discussed, DIT is the agency with primary policy responsibility for the Tasmanian Transport Programs, including TFES, and Centrelink (now DHS) operates as DIT's agent. However, key aspects of the Scheme's design and delivery can only be changed with the approval of the Australian Government. While this arrangement limits the capacity of either agency to make significant reforms to program delivery arrangements, both agencies should continue to explore opportunities to make incremental improvements within these parameters to improve the overall performance of the Scheme.

39. Negotiations for an agreement updating the responsibilities for TFES administration had been ongoing between DIT and Centrelink since 2009. The new Head Agreement signed by DHS and DIT in August 2011 takes into consideration the ANAO's preliminary audit findings, and establishes a number of key mechanisms that were either absent or not fully successful, in the previous MoU, in ensuring that TFES was delivered in a fully effective and accountable manner. These new mechanisms include improved management information and change management requirements, a framework for a risk-based management of compliance activities, an assurance framework and new or revised KPIs.

40. While the new Agreement represents a valuable instrument establishing more clearly the framework of responsibilities and expectations for the delivery of TFES, the document is presented as a 'work in progress', and a number of important features of program administration are not covered in the changes described in the Agreement or are left open to future improvements and modifications. The effectiveness of the changes set out in the Agreement will be heavily dependent on the agencies' commitment to maintaining the momentum required to pursue the implementation and further development of the Agreement. While a date of review of the Head Agreement is scheduled for three years after the commencement date, the

²⁰ In order to gain full assurance of the accuracy of the formulas developed in the database, a comprehensive review would need to be conducted within the database programming language. This was not within the scope of the audit.

Quarterly Business Meetings set out in the new Agreement should represent a useful means of assessing progress towards the Agreement's objectives.

41. Until November 2011, there was no overarching risk-based compliance strategy for the administration of TFES. The compliance activities conducted for TFES were limited in their scope and effectiveness: two of the activities identified by DIT and Centrelink as compliance activities were better defined as reports on claimants' self-declarations, thus presenting some inherent limitations with respect to the level of assurance provided; two other compliance activities were either not fully effective at detecting non-compliance, covered a limited number of claimants and claims, or did not target areas generating the higher financial exposure.

42. The 2011 Agreement states that DHS and DIT would endeavour to reach an agreement on a full risk-based compliance strategy within 60 days of signing of the Head Agreement and to vary the Agreement to reflect the strategy.²¹ Keeping in mind that compliance activities need to be commensurate with the size, characteristics and available operational budget, this strategy should better position DIT and DHS to deploy the Scheme's limited resources more effectively and ensure that greater emphasis is given to those areas presenting the greatest financial risk. DIT provided a draft compliance strategy to the ANAO on 4 November 2011, and DIT and DHS indicated their commitment to finalise the document by mid-November 2011. The ANAO was not able to review the draft compliance strategy or verify that DIT and DHS had met their timeframe before the publication of this report.

43. Prior to the new Head Agreement, TFES' performance was monitored mostly through KPIs set out in the MoU between DIT and Centrelink.²² The extent to which the agencies reported and achieved these KPIs was variable. The main internal report on TFES' operations, the monthly report provided to DIT by Centrelink, was not sufficiently comprehensive to effectively monitor performance and review overall progress and trends. The Head Agreement sets the framework for improved monitoring and reporting of TFES and should, once the tasks required to finalise the KPIs are completed, help the

²¹ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Services Schedule 3, Subsection 1.3.

²² *Memorandum of Understanding between Centrelink and the Department of Transport and Regional Services*, August 2002.

agencies gain a higher level of confidence that the Scheme is delivered effectively and that accountability measures are in place.

Summary of agency response

DIT

44. DIT provided the following summary comment to the audit report:

The Department of Infrastructure and Transport (DIT) notes the findings and recommendations made in the ANAO's audit of the Tasmanian Freight Equalisation Scheme. DIT commenced work to implement the recommendations during the audit and this work remains an ongoing focus.

The Department accepts the recommendations (which were directed at the Department with the Department of Human Services). The Department supports improvements to the compliance and quality assurance processes. Consistent with the recommendation by the ANAO, the Department with DHS, has worked to establish a compliance strategy as part of its management of the Scheme.

DIT's full comments are included at Appendix 1 of the report.

DHS

45. DHS provided the following summary comment to the audit report:

The Department of Human Services welcomes this report and considers that implementation of its recommendations will enhance the administration of the Tasmanian Freight Equalisation Scheme.

The Department of Human Services agrees with the recommendations in the report.

DHS's full comments are included at Appendix 1 of the report.

Recommendations

Recommendation No. 1

Para 3.60

In order to reduce the risk of incorrect payments, the ANAO recommends that DHS, in consultation with DIT, identifies data about goods and businesses that could substantially affect TFES payment accuracy, and establishes arrangements to review and update this information in a more timely manner.

DIT response: Agreed

DHS response: Agreed

Recommendation No. 2

Para 4.15

To strengthen TFES quality assurance activities, the ANAO recommends that:

- DHS develops documented procedures to improve the consistency of the approach to quality assurance; and
- DIT and DHS analyse and report quality assurance results to inform business and management decisions relating to the administration of the Scheme.

DIT response: Agreed

DHS response: Agreed

**Recommendation
No. 3****Para 4.55**

In order to gain a higher level of confidence in the integrity of the payments made under TFES, the ANAO recommends that DHS, in consultation with DIT:

- applies more effective data entry and management rules, and conducts appropriate data integrity tests on *Staff Online* data; and
- analyses the data integrity tests results, and reports on the outcomes of this analysis as part of the reporting arrangements specified in the 2011 DHS-DIT Head Agreement.

DIT response: Agreed

DHS response: Agreed

Audit Findings

1. Introduction

This chapter provides background information on the Tasmanian Freight Equalisation Scheme and the role of the Department of Infrastructure and Transport and Centrelink (now the Department of Human Services) in administering the Scheme. The chapter also outlines the audit approach including the objective, scope and methodology.

The Tasmanian Freight Equalisation Scheme

1.1 The Australian Government has provided financial assistance to shippers of freight between Tasmania and mainland Australia under the Tasmanian Freight Equalisation Scheme (TFES, or the Scheme) since July 1976.

1.2 The Scheme aims to assist in alleviating the sea freight cost disadvantage incurred by shippers²³ of eligible non-bulk²⁴ goods moved between Tasmania and the mainland of Australia by sea. The Scheme's objective is to:

... provide Tasmanian industries with equal opportunities to compete in mainland markets, recognising that unlike their mainland counterparts, Tasmanian shippers do not have the option of transporting goods interstate by road or rail.²⁵

1.3 In order to understand the Scheme's operations, it is important to appreciate its design and the administrative arrangements put in place to deliver the Scheme. In particular:

- the Scheme is administered through a principal-agent agreement between the Department of Infrastructure and Transport (DIT) and the Department of Human Services (DHS)²⁶; and
- the Scheme's operational arrangements, eligibility criteria and assistance calculations reflect the wide range of variables that can affect sea freight disadvantage.

²³ Shippers or claimants are companies and individuals that incur the costs of shipping eligible goods.

²⁴ Goods that have some form of unitisation or packaging and that are not shipped loose in a ship's hold or tanks.

²⁵ Department of Infrastructure and Transport website, <<http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/scheme.aspx>> [accessed 28 March 2011].

²⁶ In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.

1.4 These considerations are discussed in more detail in this chapter.

Administrative and financial arrangements

1.5 The Scheme operates as an executive scheme under the *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme* (the Ministerial Directions) of the Minister for Infrastructure and Transport. The Ministerial Directions establish the structure of the Scheme's various components, the eligibility criteria for claimants and goods, and the parameters used to determine the levels of assistance provided for different freight scenarios.

1.6 The administration of the Scheme is shared between DIT and DHS. Between 2002 and 2011, this arrangement was established in a Memorandum of Understanding (MoU) between the then Department of Transport and Regional Services (DOTARS, now DIT) and Centrelink.²⁷ In August 2011, DHS and DIT signed a new Head Agreement.²⁸ DIT (as the principal agency for the Scheme) is responsible for policy formulation and advice, and for the overall management of the program. DHS (as DIT's agent) is responsible for the day-to-day administration of the Scheme, which it delivers, through the Centrelink master program, as part of the Tasmanian Transport Programs (comprising TFES, the Tasmanian Wheat Freight Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme). Specifically, Centrelink assesses claims for TFES assistance, makes payments to eligible claimants, and conducts a number of quality assurance, compliance and review activities designed to support payment accuracy. These responsibilities are outlined further in the *Tasmanian Freight Equalisation Scheme Ministerial Directions of 2008 Guidelines*²⁹ (the Guidelines).

1.7 Figure 1.1 illustrates the principal-agent relationship between DIT and DHS, and the relationships between these agencies and claimants. While Centrelink is the primary source of contact for claimants and is the agency that undertakes most of the Scheme's administrative activities, DIT is the agency

²⁷ Centrelink and the Department of Transport and Regional Services, *Memorandum of Understanding between Centrelink and DOTARS*, August 2002.

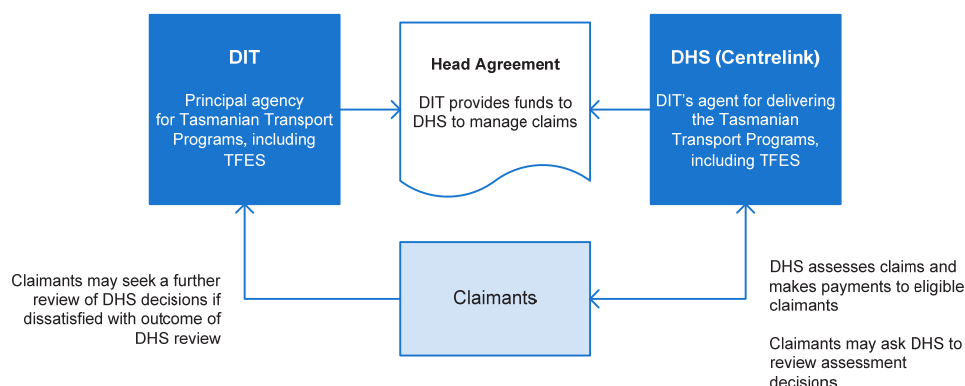
²⁸ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011.

²⁹ The Guidelines are available from DIT's website:
<http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/pdf/TFES_MD2008_Guidelines_v1_02.pdf>
[accessed 28 March 2011].

with primary policy responsibility for TFES and the other Tasmanian Transport Programs.

Figure 1.1

Administrative arrangements for TFES



Source: ANAO analysis.

1.8 The Scheme is demand driven, and while an annual budget is set for the total assistance available for claimants, in practice there is no upper limit to the total annual payments that could be made to claimants. The 2010–11 budget for assistance payable under the Scheme was \$114.4 million.³⁰ The combined forward estimates for the Scheme over the four years to 2013–14 is \$485.6 million.³¹ In 2010–11, Centrelink received \$1 million (including GST) in revenue from DIT to deliver the Tasmanian Transport Programs.³²

1.9 The Tasmanian Transport Programs are delivered by a team of Centrelink officers located in Hobart, with support from National Office for program and relationship management issues with DIT. The number of team members has varied between 10 and 20 over time. Support is also provided by an IT development and maintenance team within National Office.

³⁰ Department of Infrastructure and Transport, *Portfolio Budget Statements 2010–11—Budget Related Paper No. 1.14*, p.52.

³¹ Department of Infrastructure and Transport, *Portfolio Budget Statements 2011–12—Budget Related Paper No. 1.13*, p.52. The forward estimate budget allows for a four per cent increase in expense every year, to reflect the demand-driven nature of the Scheme.

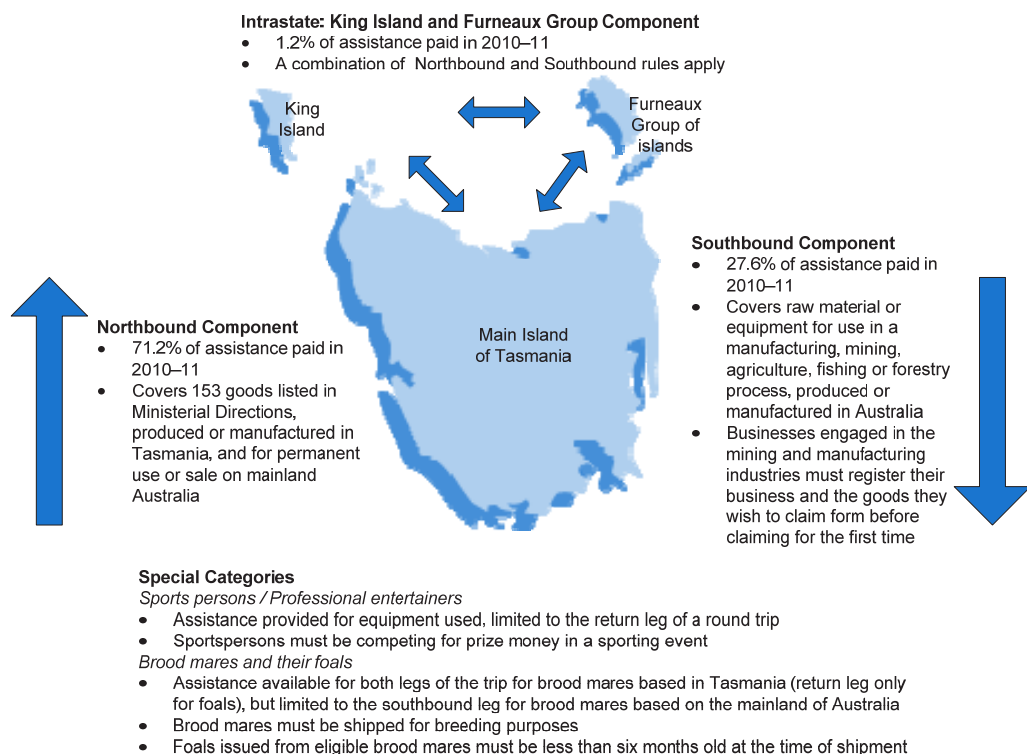
³² In addition, Centrelink has received \$1.6 million from DIT since 2007–08 for the development and maintenance of a new IT system, *Staff Online* (see Glossary), and a one-off payment of \$220 000 (GST inclusive) in 2010–11 to eliminate the backlog of claims.

The Scheme's design

1.10 The Scheme's design is complex, reflecting the large number of variables that could affect the level of freight disadvantage facing Bass Strait shippers. Separate components cover the payment of freight assistance depending on goods' source and destination. Each of these components establishes different eligibility requirements for claimants and for goods, and these requirements also affect the level of assistance that may be paid to eligible claimants. Accordingly, goods eligible for assistance under one component might not be eligible for assistance under another, or might be eligible for a different level of assistance. Figure 1.2 illustrates the three main components for the Scheme, as well as three special categories of claim, and provides an overview of the principal considerations for eligibility for each component.

Figure 1.2

TFES main features



Source: ANAO analysis.

Components

1.11 The Scheme comprises three main components:

- The northbound component, which applies to certain goods produced or manufactured in Tasmania for use or sale on the mainland of Australia. In 2010–11, northbound claims represented 71.2 per cent of the total assistance paid under the Scheme.
- The southbound component, which applies to certain goods shipped from the mainland of Australia to Tasmania to be used primarily or substantially in the production processes of the manufacturing, mining, fishing, agriculture or forestry industries. In 2010–11, southbound claims represented 27.6 per cent of the total assistance paid under the Scheme.
- The intrastate component, covering shipments of goods between the main island of Tasmania and either King Island or the Furneaux Group.³³ In 2010–11, intrastate claims represented 1.2 per cent of the total assistance paid under the Scheme.

1.12 The Scheme also covers a further three special categories:

- sports persons competing for prize money in a sporting event;
- professional entertainers; and
- brood mares (and, in certain cases, their foals) shipped between mainland Australia and Tasmania, or from King Island or the Furneaux Group to Tasmania, for breeding purposes.

1.13 As the intrastate component and the three special categories represent a very small proportion of the assistance paid under the Scheme, they have not been included in the scope of this audit.

Eligibility for assistance

1.14 Each of the Scheme's components include different eligible goods and claimants. The northbound component has 153 eligible consumer items (such

³³ The Furneaux Group is a group of some 50 islands situated in the eastern Bass Strait, the largest of which is Flinders Island. From July 2008, the Scheme was expanded to provide assistance for goods shipped between mainland Tasmania and King Island or the Furneaux Group of islands. In September 2008, additional assistance became available for northbound interstate shipments from Flinders Island to mainland Australia, and from November 2008, any island in the Furneaux Group was eligible for assistance in this category.

as confectionery) as well as non-consumer raw materials and equipment (such as livestock). These goods are listed in Schedule 1 of the Ministerial Directions (see Appendix 2). Broadly, to be eligible for assistance under the northbound component, the goods freighted must be:

- produced or manufactured in Tasmania; and
- for permanent use or sale on mainland Australia.³⁴

1.15 To be able to claim for assistance under the southbound component, goods freighted must be:

- produced or manufactured in Australia (if imported, they must have undergone a manufacturing process on mainland Australia); and
- a raw material or equipment for use in a manufacturing, mining, agriculture, fishing or forestry process in Tasmania.

1.16 Southbound claimants in the manufacturing and mining industries must first register their businesses, and the goods for which they intend to claim assistance, with Centrelink. Claimants in the fishing, agriculture and forestry industries do not have to register before claiming.³⁵

1.17 The intrastate component encompasses the eligible goods and claimants of the southbound and northbound components. The goods must be produced or manufactured on the main island of Tasmania for permanent use or sale on King Island or the Furneaux Group, or produced or manufactured on King Island or the Furneaux Group for permanent use or sale on the main island of Tasmania.

1.18 Goods that are specifically ineligible for both the southbound and intrastate components include materials and equipment for constructing buildings, and fuels and lubricants.

³⁴ Minister for Infrastructure, Transport, Regional Development and Local Government, *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme*, September 2009, Schedule 1. Goods that are intended for export from Australia at the time of shipment from Tasmania, or at the time of first sale on the Australian mainland, are ineligible for assistance.

³⁵ Centrelink determines whether claimants are engaged in manufacturing, mining, fishing, agriculture or forestry by using the Australian and New Zealand Standard Industrial Classification codes, as published by the Australian Bureau of Statistics. See the Glossary for a definition of ANZSIC.

Claiming for assistance

1.19 Businesses wishing to claim under the southbound component and who are engaged in the mining and manufacturing industries must register their businesses and the goods they wish to claim for before claiming for the first time. This registration step is not required from other claimants.³⁶

1.20 All claimants are required to complete a Claim for Assistance form.³⁷ This form requires a claimant to provide the details of their freight shipment, including the transport company used, the type of goods shipped, the origin and destination points of the shipment, and the total freight paid. Claimants must also supply supporting documents to substantiate the details provided in the claim form. The nature of these supporting documents varies from component to component, and for different classes of claimant. For most claims, the minimum substantiation required will be the original sea carrier, freight forwarder or freight broker invoices, and a copy of consignment notes in cases where the invoice does not contain the full shipping details.³⁸

1.21 Centrelink uses the supporting documentation provided by claimants to verify the information on the claim form. Centrelink also uses other sources of information to verify the eligibility of businesses and goods, including information provided by the claimants during the registration process or at other times, various internal lists and databases, and the Internet.

1.22 Centrelink (now DHS) does not set the eligibility parameters for the Scheme, and has no control over the structure of the Scheme's components. Rather, as DIT's agent, DHS administers the Scheme according to the parameters established in the Ministerial Directions and the Guidelines.

Assistance payment calculation

1.23 Centrelink calculates the amount of assistance to be paid to eligible claimants based on two elements of sea freight disadvantage incurred by shippers:

³⁶ A minority of claimants with a special status ('agents' and 'self-assessed claimants') are required to enter into an additional agreement with Centrelink/DHS in order to be able to claim assistance under TFES. See Chapter 3 for more details on the claiming requirements for these claimants.

³⁷ There are variations to the claim forms and declarations for the additional special categories. Forms are available from DHS's website, DHS's Centrelink office in Hobart and via post.

³⁸ Different conditions apply to a small number of claimants ('self-assessed claimants'), who do not need to supply the documentary evidence with the claim form. See Chapter 3 for further discussion about the different kinds of claimants, including business and individuals, agents, and third party organisations.

- the difference between the wharf-to-wharf³⁹ cost of shipping eligible goods across Bass Strait and a notional cost of moving the same goods an equivalent distance by road (420 kilometres)⁴⁰; and
- the added cost of the intermodal transfer of goods.⁴¹

1.24 As is the case for assessing the eligibility of claimants and goods, assessing the level of assistance that should be paid in respect of a particular shipment is a complex calculation subject to a large number of variables. Broadly, assistance payments are calculated per standard shipping container using set parameters for the cost of shipping goods across the Bass Strait (median freight cost disadvantage of \$671) and the cost of transferring goods between freight modes (intermodal fixed-cost allowance of \$100).⁴² The maximum assistance payable per standard shipping container is \$855. To provide an incentive for shippers to seek lower freight rates, assistance payments are determined on a proportional sliding scale. Further details of the payment calculations are at Appendix 3.

Claimant and claim profile

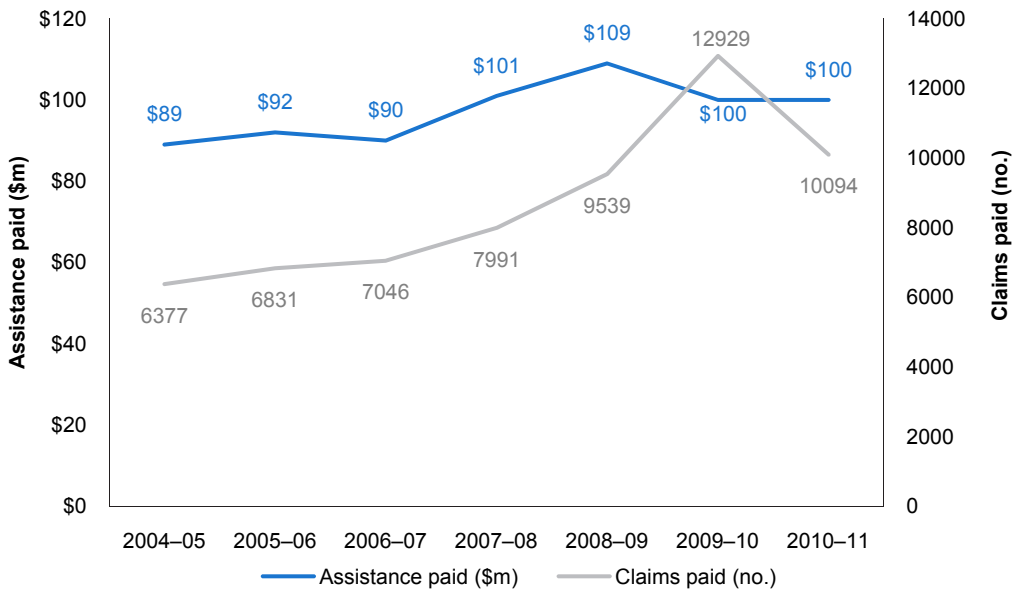
1.25 Figure 1.3 shows that the number of TFES claims paid by Centrelink each year increased steadily between 2004–05 (6377 claims paid) and 2010–11 (10 094 claims paid), with the highest point reached in 2009–10 (12 929 claims paid). Concurrently, the amount of assistance delivered through the Scheme increased moderately, from \$89 million in 2004–05 to \$100 million in 2010–11, a 12 per cent increase.

³⁹ Assistance is only paid for the wharf-to-wharf section of a journey. If the freight bill covers goods supplied and/or delivered from the door of the supplier to the door of the recipient, a notional \$230 is deducted from the freight bill for each segment (i.e. from the supplier's door to the wharf and/or from the wharf to the recipient's door).

⁴⁰ Since 1996–97, the Scheme has used an allowance for the fixed single road freight equivalent (RFE) of \$281 per standard shipping container for dry cargo, and \$309 per refrigerated standard shipping container.

⁴¹ Intermodal cost refers to the added cost of transferring goods from one mode of transport to another at each end of the journey – commonly from truck to ship and ship to truck.

⁴² Additional scaling and adjustment factors are applied when goods are shipped on routes other than between northern Tasmania and Victoria; comprise less than full container loads; use transport units other than standard shipping containers; are heavy or high density cargo; or are invoiced based on door-to-door rather than wharf-to-wharf shipments.

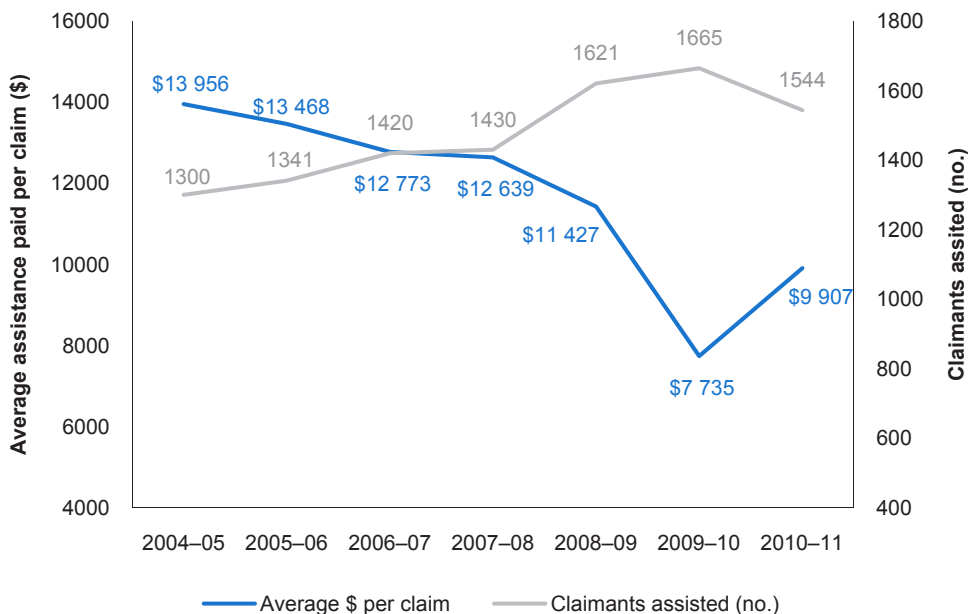
Figure 1.3**Number of claims paid and total assistance paid, 2004–05 to 2010–11**

Source: Centrelink, *Monthly Performance Reports*, various years ; Department of Infrastructure and Transport, *Annual Reports 2004–05 to 2008–09*; ANAO data analysis for 2009–10 and 2010–11.

1.26 Within the same period, the average amount of assistance paid per claim decreased significantly (from approximately \$14 000 in 2004–05 to \$9907 in 2010–11), while the number of claimants assisted increased by 19 per cent, from 1300 to 1544 (Figure 1.4). These figures reflect that, while the number of claims and claimants has been progressively increasing, the value of the claims submitted has been, on average, lower than in previous years. These two factors combined to lower the overall average value of the claims.

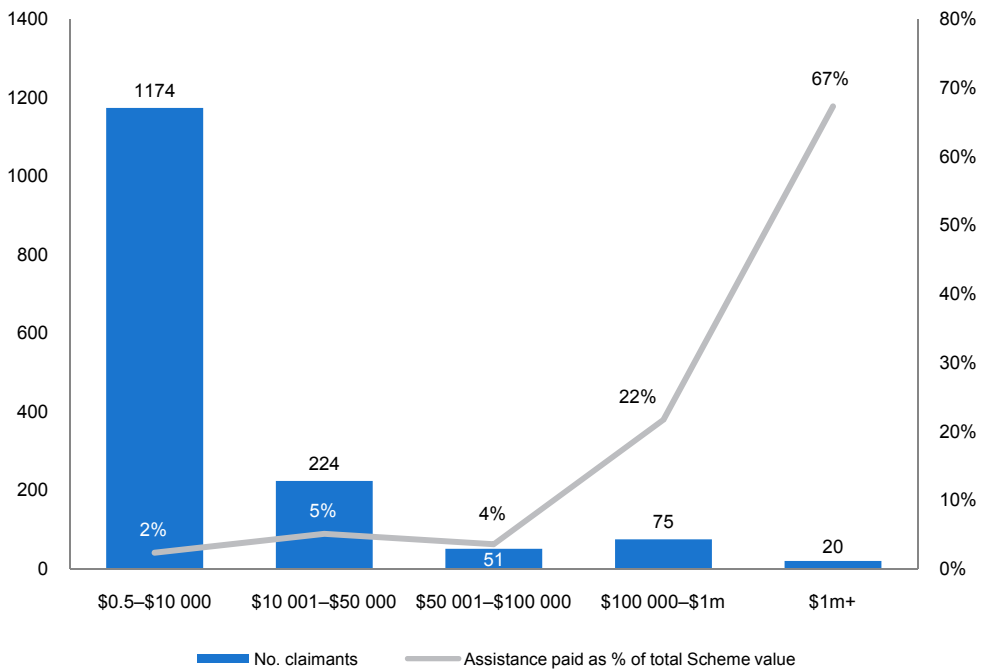
Figure 1.4

Average value of claims and number of claimants, 2004–05 to 2010–11



Source: Centrelink, *Monthly Performance Reports*, various years; Department of Infrastructure and Transport, *Annual Reports 2004–05 to 2008–09*; ANAO data analysis for 2009–10 and 2010–11.

1.27 The amount of assistance paid by Centrelink varied greatly between claimants. In 2010–11, 1544 claimants received assistance under the Scheme (Figure 1.5). The largest amount of total annual assistance paid to a single claimant in 2010–11 was \$15.2 million, and the smallest annual total was 54 cents. The total amount of assistance paid each year is driven by a small number of claimants who receive the majority of the assistance paid under the Scheme. In 2010–11, one per cent of claimants (20 claimants) received 67 per cent of the total assistance paid under the Scheme, with an average claim value of \$3.4 million. Conversely, 76 per cent of claimants (1174 claimants) received 2.3 per cent of the total assistance paid under the Scheme, with an average claim value of \$1990.

Figure 1.5**Distribution of the assistance received through TFES, 2010–11**

Source: ANAO analysis.

1.28 Three industries – the food and beverage industry; the agriculture, forestry and fishing industry; and the wood and paper industry – represent the largest groups of claimants both in terms of amount of assistance received and number of claimants accessing the Scheme. Together, these three industries received 73 per cent of the total assistance paid in 2010–11. The 20 largest claimants received 67 per cent of the assistance paid in 2010–11. Five of these claimants were businesses from the food and beverage industry that received a total of \$32.5 million (32 per cent of all assistance paid) in 2010–11.

Recent reviews of the Scheme

1.29 Since the introduction of the Scheme in 1976, there have been multiple reviews of the structure of the Scheme's components and parameters used to establish eligibility and levels of assistance. A review conducted in 1998 by the Tasmanian Freight Equalisation Scheme Review Authority (the Nixon Review) recommended that the key assistance parameters for the Scheme should be

reviewed annually and that indexation adjustments should be applied, as sea freight disadvantage changes over time.⁴³ Following the Nixon Review, the Scheme's parameters were reviewed six times between 1998 and 2006. The then Department of Transport and Regional Services (DOTARS) indicated that the recommendations from these reviews were not implemented because confidence in the reviews' findings were limited by 'significant estimation and data problems', and because DOTARS did not consider the estimated changes to be material.⁴⁴

1.30 In 2006, the Productivity Commission conducted an inquiry into the Tasmanian freight subsidy arrangements to 'consider the extent of the continuing benefits as well as costs of [the] schemes'.⁴⁵ The Productivity Commission concluded that 'there [was] no sound underlying economic rationale for [TFES]' and that the Scheme was affected by 'significant design and operational problems'.⁴⁶ The Productivity Commission found that:

- over the last several decades, the real cost of Bass Strait shipping had fallen significantly relative to road freight cost, and the benefits of TFES to Tasmania came at a small net cost to the Australian economy as a whole;
- the rules used to calculate TFES assistance generated a lack of incentive to minimise freight cost and created a number of 'gaming opportunities'⁴⁷ for claimants, which resulted in an overestimation of the freight cost disadvantage and higher rebates being paid; and
- the monitoring, auditing and public reporting of TFES could be improved.

⁴³ This recommendation is reflected in Section 26 of the Ministerial Directions, which states that 'the key assistance parameters... will be reviewed on an annual basis and changes may be made to the Directions where those parameters are considered to have materially changed.'

⁴⁴ *Tasmanian Freight Subsidy Arrangements, Productivity Commission Inquiry Report No. 39*, 14 December 2006, pp. 16–17.

⁴⁵ The inquiry covered TFES and the Tasmanian Wheat Freight Scheme. *Tasmanian Freight Subsidy Arrangements, Productivity Commission Inquiry Report No. 39*, 14 December 2006, p. iv.

⁴⁶ *ibid.*, p. xxii.

⁴⁷ The Productivity Commission indicated that, although the extent of the gaming was difficult to ascertain, 'the design of TFES and its current parameters provide scope for different ways of structuring rebate claims for the same freight tasks, resulting in markedly different TFES payments. This has encouraged some shippers to 'shop around' for the most advantageously structured freight bill for TFES subsidy purposes'. *ibid.*, p. xix.

1.31 The Productivity Commission made five recommendations relating to TFES:

- rules for claiming TFES payments should be restructured to minimise adverse incentives, gaming opportunities and overcompensation of freight cost disadvantage;
- monitoring, auditing and reporting should be improved; and
- parameter reviews should be conducted every three years (rather than annually), and reports should be made publicly available.

1.32 In June 2007, the Australian Government agreed with the findings of the Productivity Commission's review and indicated that, following a period of consultation with stakeholders, key changes would be implemented based on the review's recommendations.⁴⁸

1.33 One of the Productivity Commission's recommendations was that every three years, the Bureau of Infrastructure, Transport and Regional Economics (BITRE)⁴⁹ should review the Scheme's methodology and parameter values for calculating assistance payments, and publicly release the results. In 2008, BITRE conducted and published the first such parameter review and made a number of suggestions to update the Scheme's parameters. The Government considered that 'adjustments to the parameters would significantly reduce overall assistance levels resulting in a significant negative impact on Tasmanian businesses at a time of global financial uncertainty'.⁵⁰ Existing levels of assistance were maintained by continuing to use the parameters that were set in 1996–97. The Government also announced that the Scheme would be reviewed again in 2011–12.

1.34 In September 2009, to address the Productivity Commission's recommendation that there should be more comprehensive public reporting of information about the Scheme, DIT introduced a new coding system to be used

⁴⁸ The Productivity Commission's draft *Tasmanian Freight Subsidy* report, released in September 2006, proposed phasing out the Scheme. In response, the Australian Government announced that it would continue to review the Tasmanian freight subsidy arrangements to ensure they operated as intended. *Prime Minister's media release of 7 September 2006*, reproduced in: Productivity Commission, *Tasmanian Freight Subsidy Arrangements, Productivity Commission Inquiry Report No. 39*, 14 December 2006, p. 129.

⁴⁹ BITRE provides, among other services, economic analysis, and research and statistics on infrastructure and transport, and is part of the Department of Infrastructure and Transport.

⁵⁰ The Hon Anthony Albanese MP, *Freight Subsidy Schemes to Continue Ongoing Financial Assistance for Tasmanian Industry*, Media Release, 6 November 2008, <http://www.minister.infrastructure.gov.au/aa/releases/2008/November/AA164_2008.aspx> [accessed 6 April 2011].

by shippers when claiming assistance, based on an internationally recognised coding system.⁵¹ This system was implemented with the aims of providing more comprehensive data in public reports about the Scheme, and to improve the Scheme's audit and compliance regime.

1.35 DIT also conducted a series of consultations among stakeholders to inform the design and implementation of administrative reforms for the Scheme following the Productivity Commission's recommendations. In October 2009, DIT circulated draft Ministerial Directions that incorporated proposed changes based on the Productivity Commission's recommendations and the outcomes of the consultation process. The draft Ministerial Directions did not propose changes to the parameters for calculating the amount of assistance payable. However, changes were proposed to:

- clarify the role of a special category of claimants, the 'agents';
- increase and clarify audit and compliance requirements; and
- implement a series of administrative changes aimed at clarifying the interpretation of the Ministerial Directions, and the review mechanisms available to claimants.

1.36 In May 2010, the Minister for Infrastructure and Transport announced that no changes would be made to the Ministerial Directions.

1.37 Following the Government's announcement that the Scheme would be reviewed again in 2011–12, DIT commenced a review in late 2010 with the aim of identifying opportunities to simplify the Scheme (the Simplification Review).

1.38 Information from the Simplification Review was used to inform the advice provided by DIT to its Minister in February 2011 to support preparations for the 2011–12 Federal Budget. In its advice, DIT noted that:

- the purpose and Ministerial Directions for the Scheme are dated after 35 years of operation leading to the potential that payments are made to those who are not the intended beneficiaries;
- TFES complexity contributes to errors in assessing eligibility and payments; [and]

⁵¹ The *United Nations Central Product Classification* (CPC) Version 2.

- large numbers of claims attract very small payments.⁵²

1.39 The briefing also included a number of recommendations to simplify the Scheme and to address the issues identified by the Simplification Review.

1.40 A further review of the Scheme's parameters was completed by BITRE in November 2010, but has not yet been made publicly available. The BITRE parameter review reiterated that the sea freight disadvantage for many Bass Strait shippers had decreased due to an increase in road freight rates. While suggesting that, in this context, the TFES parameters should be updated, BITRE noted that such changes would result in payments to most shippers being significantly reduced.⁵³

1.41 The Scheme's funding levels was maintained in 2010–11. No ministerial decisions have been made in relation to potential changes to the Scheme.

1.42 Table 1.1 provides a timeline for the main TFES reviews, their key findings and the Government's responses.

⁵² Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme – ANAO Audit, Scheme and Parameter Review and MoU with Centrelink*, eWorks number 00380-2011, February 2011.

⁵³ BITRE, *Tasmanian Freight Scheme Parameter Review*, Department of Infrastructure and Transport, November 2010, p. v (unpublished).

Table 1.1

Timeline for main TFES reviews

Reviews	Year	Key Findings	Government Response
Nixon Review	1998	Key assistance parameters should be reviewed annually and indexation adjustment should be applied	Agreed
Parameter Reviews	1999; 2000; 2001; 2002; 2003; 2006	Parameters should be adjusted to better reflect road freight rates	No change – low confidence in data and changes would not be material
Productivity Commission Review	2006	<p>Rules for claiming TFES payments should be restructured to minimise adverse incentives, gaming opportunities and overcompensation of freight cost disadvantage</p> <p>Monitoring, auditing and reporting could be improved</p> <p>Parameters reviews should be conducted every three years and made publicly available</p>	<p><i>September 2006</i> – no change but ongoing review of the Scheme</p> <p><i>June 2007</i> – announced key changes to be implemented</p> <p><i>March 2009</i> – first stage redevelopment of TFES IT system</p> <p><i>September 2009</i> – second stage redevelopment of TFES IT system including new coding system is introduced</p> <p><i>October 2009</i> – new Ministerial Directions are drafted but not adopted</p>
Parameter Review (BITRE) (published)	2008	Parameters should be adjusted to better reflect road freight rates	No change, but announced the Scheme will be reviewed in 2011–12
Parameter Review (BITRE) (not yet published)	2010	Parameters should be adjusted to better reflect road freight rates	No change to date (October 2011)
Simplification Review (DIT)	2011	<p>Scheme should be simplified to ensure that:</p> <ul style="list-style-type: none"> • payments go to intended beneficiaries • eligibility and payments assessments are less complex and more accurate • number of claims attracting small payments is reduced 	No change to date (October 2011)

Source: ANAO analysis.

Recent developments – Head Agreement between DIT and DHS

1.43 Until August 2011, the administrative arrangements between DIT and Centrelink to deliver the Scheme were governed by an MoU, signed in August 2002 for the period 2002–2007. The MoU was extended twice, each time for one year periods.

1.44 Negotiations for a new MoU started in 2009, but were delayed due to ongoing discussions between the two agencies on the determination of the fee required to administer the Scheme. As a result, letters were exchanged to extend the MoU for a further two months, and then again for a further three months. In December 2009, the agencies agreed to extend the MoU until the completion of a new MoU, during which time the cost for the services provided by Centrelink would be based on the 2008–09 fee (\$1 million). Adjustments to the 2008–09 cost for service would be dependent on the outcome of the long-term negotiations.

1.45 In July 2011, Centrelink was established as a master program in DHS. In August 2011, DHS and DIT signed a Head Agreement⁵⁴ describing the administrative arrangements for the delivery of the three Tasmanian Transport Programs (including TFES, the Tasmanian Wheat Freight Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme). The drafting of this new Agreement, which replaces all previous agreements, reflected the ANAO audit's preliminary findings about a range of issues, including improved management information and change management processes, a framework for risk-based management of compliance activities and assurance, and a list of new or revised KPIs.

Related audits

1.46 The ANAO has not previously audited the Scheme. However, three earlier ANAO audits have focused on sea freight policy, including sea freight security, compliance for international cargo and cargo management.⁵⁵ This audit also complements audits focused on service delivery arrangements

⁵⁴ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011.

⁵⁵ ANAO Audit Report No.4 2007–08, *Container Examination Facilities Follow-up*; ANAO Audit Report No.24 2006–07, *Customs' Cargo Management Re-engineering Project*; ANAO Audit Report No.18 2005–06 *Customs Compliance Assurance Strategy for International Cargo*.

between Centrelink and other departments, including the Department of Education, Employment and Workplace Relations, the Department of Families, Housing, Community Services and Indigenous Affairs, and the Department of Innovation, Industry, Science and Research.⁵⁶

The audit

Audit objective and scope

1.47 The objective of the audit was to assess the effectiveness of DIT's and Centrelink's⁵⁷ administration of TFES.

1.48 The audit scope included the arrangements established by DIT and Centrelink to administer the Scheme, including activities to promote claimant access, and to assess and pay the claims submitted by claimants. The audit also examined the program management arrangements established by the two agencies to support the delivery of the Scheme.

1.49 While TFES forms part of the Tasmanian Transport Programs, which also include the Tasmanian Wheat Freight Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme, the majority of assistance provided through those Programs is provided through TFES (75 per cent). The other components of the Programs were excluded from the scope of this audit.⁵⁸

1.50 As previously stated, TFES includes three components and three special categories. The audit did not examine the claim assessment processes supporting the intrastate component (between Tasmania and King Island or the Furneaux Group) and the three special categories (sports persons, professional entertainers and brood mares), as only a minority of claims (less than six per cent of claims in 2010) relate to these elements.

1.51 The audit also did not assess the extent to which the payments made to shippers have been able to alleviate sea freight disadvantage, or the overall economic impact of the Scheme. These matters were examined by the

⁵⁶ ANAO Audit Report No.16 2010–11, *Centrelink's Role in the Process of Appeal to the Social Security Tribunal and to the Administrative Appeals Tribunal*; ANAO Audit Report No.36, 2009–10, *Emergency Management and Community Recovery Assistance in Centrelink*; ANAO Audit Report No.18, 2009–10, *LPG Vehicle Scheme*. ANAO Audit Report No.12, 2009–10, *Administration of Youth Allowance*.

⁵⁷ From 1 July 2011, Centrelink became a master program within DHS.

⁵⁸ In 2010–11, the estimated expenditure profile was: Tasmanian Freight Equalisation Scheme \$120 million, Tasmanian Wheat Freight Scheme \$1 million and the Bass Strait Passenger Vehicle Equalisation Scheme \$40 million.

Productivity Commission in 2006, by BITRE's successive parameter reviews and by DIT's Simplification Review.

Audit criteria

1.52 The agencies' performance was assessed against three high-level audit criteria:

- the Scheme is accessible to eligible claimants;
- administrative systems and processes are in place to support the transparent, accurate and timely assessment and payment of claims; and
- program management arrangements (including evaluation, reporting and monitoring) support effective delivery of the Scheme.

Audit approach

1.53 The audit has been conducted in accordance with ANAO's auditing standards at a cost of approximately \$325 665. In addition to standard evidence collection activities (including interviews with agencies and document reviews), the audit fieldwork entailed:

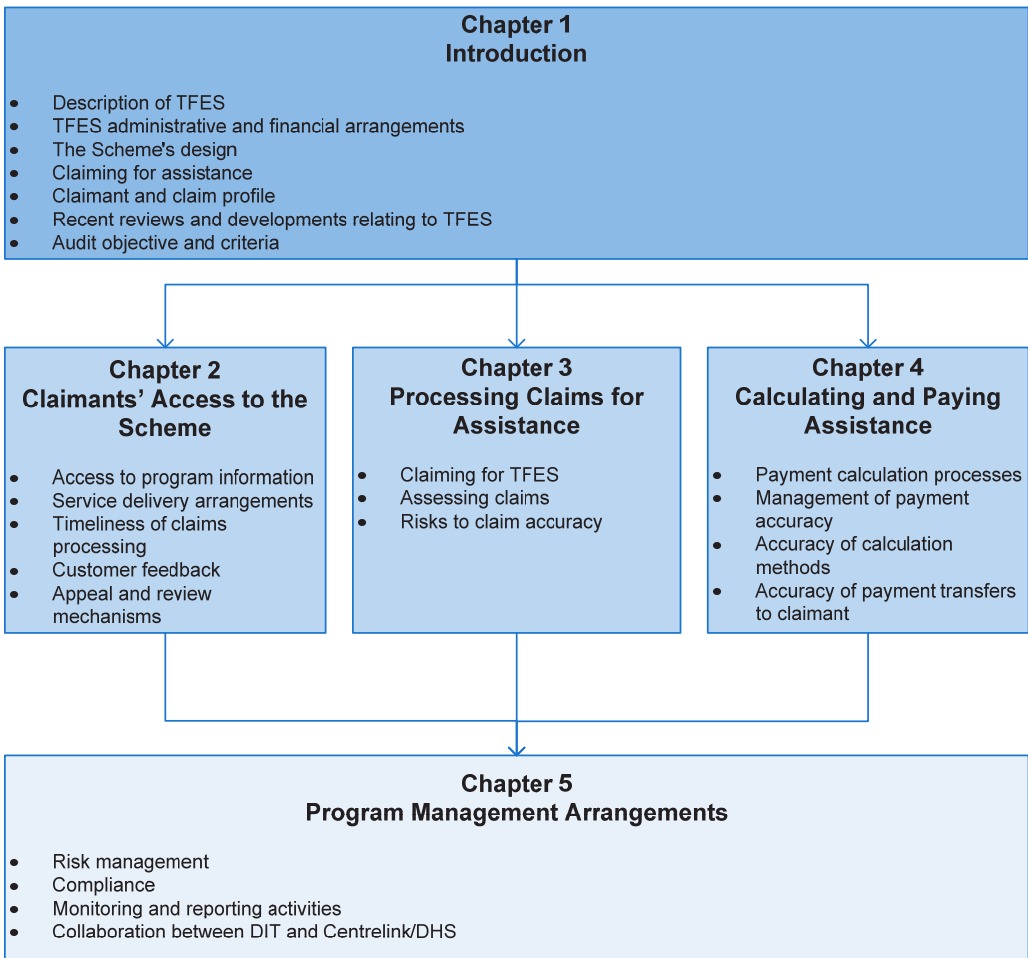
- observing TFES claim processing operations in Centrelink's Hobart office;
- stakeholder consultations, in the form of an email survey of 225 TFES claimants; and
- analysis of Centrelink's IT data for the period July 2009 to June 2011, comprising electronic records for 23 023 claims.

Report structure

1.54 The audit findings are reported in the following chapters:

Figure 1.6

Structure of the report



2. Claimants' Access to the Scheme

This chapter examines the administrative arrangements put in place by DIT and by the Department of Human Services⁵⁹ to support the Tasmanian Freight Equalisation Scheme's accessibility.

Introduction

2.1 In establishing assistance programs, it is expected that agencies will implement arrangements that deliver effective service to customers, including:

- ready access to relevant information about the program, and the conduct of regular program promotion and outreach activities;
- effective and transparent service delivery arrangements that make it straightforward for potential customers to apply for assistance;
- timely service delivery activities; and
- effective feedback and administrative review arrangements.

2.2 If the administrative arrangements supporting program accessibility are effective, citizens accessing these services will report high levels of awareness about the program, a high degree of understanding about the manner in which the program operates, and high levels of satisfaction about service delivery arrangements overall.

2.3 The audit examined the arrangements established by DIT and Centrelink in order to assess whether these arrangements supported access to the Scheme. In addition to assessing these arrangements against established better practice principles, the audit also conducted a survey of TFES claimants to ascertain their views about the Scheme's accessibility, and their overall satisfaction with the Scheme's administration. The audit also considered the implications of the activities of a third party organisation that makes claims on behalf of eligible businesses and individuals for the overall accessibility of the Scheme.

⁵⁹ In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.

2.4 In forming a view about the overall effectiveness of the administrative arrangements established by the two agencies and any potential improvements to those arrangements, the audit took into consideration a range of contextual factors, including the Scheme's longevity, the small number of beneficiaries (1544 claimants in 2010–11), and the size of the operating budget available to administer the Tasmanian Transport Programs, which include TFES (\$1 million on average between 2004–05 and 2010–11).

Access to program information

2.5 Under the terms of its agreements with DIT, Centrelink has primary responsibility for providing the public and potential claimants with access to information about TFES on DIT's behalf.⁶⁰ Centrelink's main channel for communicating with potential claimants about the Scheme is the provision of information through the Centrelink website.⁶¹ This information includes:

- the Ministerial Directions, relevant policy guidelines and Claim for Assistance forms—outlining the eligibility criteria and claim lodgement requirements;
- the *TFES Information Brochure*⁶² and the *Guidelines for Customers*⁶³—which contains information on the different components of TFES, eligible claimants and goods, and contact details for potential claimants to seek further information;
- a webpage on appeal rights—outlining the contacts for claimants if they have assessment and policy queries;
- telephone and email contacts for the Tasmanian Transport Programs team; and

⁶⁰ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Schedule 1, Section 2.

⁶¹ Centrelink, *Tasmanian Freight Equalisation Scheme* <<http://www.centrelink.gov.au/internet/internet.nsf/businesses/tfes.htm>> [accessed 31 March 2011].

⁶² Centrelink, *Tasmanian Freight Equalisation Scheme*, available from <[http://www.centrelink.gov.au/internet/internet.nsf/filestores/co127_1105/\\$file/co127_1105en.pdf](http://www.centrelink.gov.au/internet/internet.nsf/filestores/co127_1105/$file/co127_1105en.pdf)> [accessed 26 May 2011]. This colour brochure is also available in Services Tasmania outlets.

⁶³ Centrelink, *Tasmanian Freight Equalisation Scheme Guidelines for Customers (TAS007)*, available from <<http://www.centrelink.gov.au/internet/internet.nsf/forms/tas007.htm>> [accessed 31 May 2011].

- *Statistics Bulletins*⁶⁴—which provide information on tonnes, volume and assistance paid on various commodities and numbers of containers shipped.

2.6 While Centrelink has been primarily responsible for providing information about the Scheme, DIT also provides information to program stakeholders. DIT's website⁶⁵, like Centrelink's, contains information about TFES claiming and eligibility requirements, including detailed examples of assistance calculations.

2.7 In addition to making information available for potential beneficiaries, it is also important for agencies delivering services to promote those services through direct contact with the community. In the past, Centrelink officers have addressed relevant businesses and community groups and attended events such as Agfest (Tasmania's agricultural trades and beef expo) on a regular basis. Since 2008, Centrelink has undertaken outreach and promotional activities on a more limited basis, principally by conducting ad-hoc site visits.⁶⁶ These visits aimed to further educate claimants about the Scheme. For example, Centrelink visited or met with claimants to help determine eligibility, provide advice on completing claims, and discuss payment issues and the status of special-category claimants. Since October 2008, Centrelink has undertaken 21 visits to claimants.

2.8 DIT has also undertaken community outreach and promotion activities. In line with the recommendations of the Productivity Commission's report into Tasmanian Freight Subsidy Arrangements in 2006⁶⁷, DIT undertook joint activities with Centrelink to help provide public information about potential changes to the Scheme. Throughout 2008 and 2009, DIT organised public consultations and information sessions with key stakeholders and, in October 2009, in response to the Productivity Commission's recommendations, circulated draft Ministerial Directions incorporating the changes proposed by

⁶⁴ Centrelink, *Tasmanian Freight Equalisation Scheme Statistics 1 July 2008 to 30 June 2009*, available from <[http://www.centrelink.gov.au/internet/internet.nsf/filestores/tfes_stats1011/\\$file/co496_1011en.pdf](http://www.centrelink.gov.au/internet/internet.nsf/filestores/tfes_stats1011/$file/co496_1011en.pdf)> [accessed 26 May 2011]

⁶⁵ Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme*, available from <<http://infrastructure.gov.au/transport/programs/maritime/tasmanian/index.aspx>> [accessed 31 March 2011].

⁶⁶ In July 2009, in response to the Flinders Island Mayor's invitation, Centrelink conducted some consultations with the local business community to promote and educate potential claimants on TFES' new intrastate component. Centrelink also participated in Agfest 2010. Centrelink (now DHS) advised it would not attend Agfest or any similar events in 2011.

⁶⁷ Productivity Commission, *Tasmanian Freight Subsidy Arrangements*, *Productivity Commission Inquiry Report No. 39*, 14 December 2006.

the Productivity Commission. DIT also invited claimants and stakeholders to provide written submissions⁶⁸ in response to the newly drafted Ministerial Directions.⁶⁹

2.9 While Centrelink's outreach efforts had reduced over time, TFES' longevity goes some way to mitigating the potential consequences of this reduction in effort by affording relevant Tasmanian businesses and industries an extended period of time in which to develop and maintain an awareness of the Scheme and its benefits.

Effective and transparent service delivery arrangements

2.10 In order to capture current claimant satisfaction levels, and claimants' views on Centrelink's administration and delivery of TFES assistance, the ANAO conducted an online survey of 925 TFES claimants.⁷⁰ Two hundred and twenty-five claimants (28 per cent of all surveyed) responded to the ANAO's survey.⁷¹ The first five of the nine questions invited claimants to comment on their understanding of TFES eligibility requirements and sought their views on the claiming processes, both important considerations for assessing the overall accessibility of the Scheme. In the remaining questions, claimants commented on Centrelink's customer service and administration, including Centrelink's timeliness in processing and paying claims (Figure 2.1).

⁶⁸ Department of Infrastructure, Transport, Regional Development and Local Government, *Submissions on proposed changes to the Ministerial Directions for the operation of the Tasmanian Freight Equalisation Scheme*, available from <http://www.infrastructure.gov.au/transport/programs/maritime/ministerial_directions.aspx> [accessed 4 August 2010].

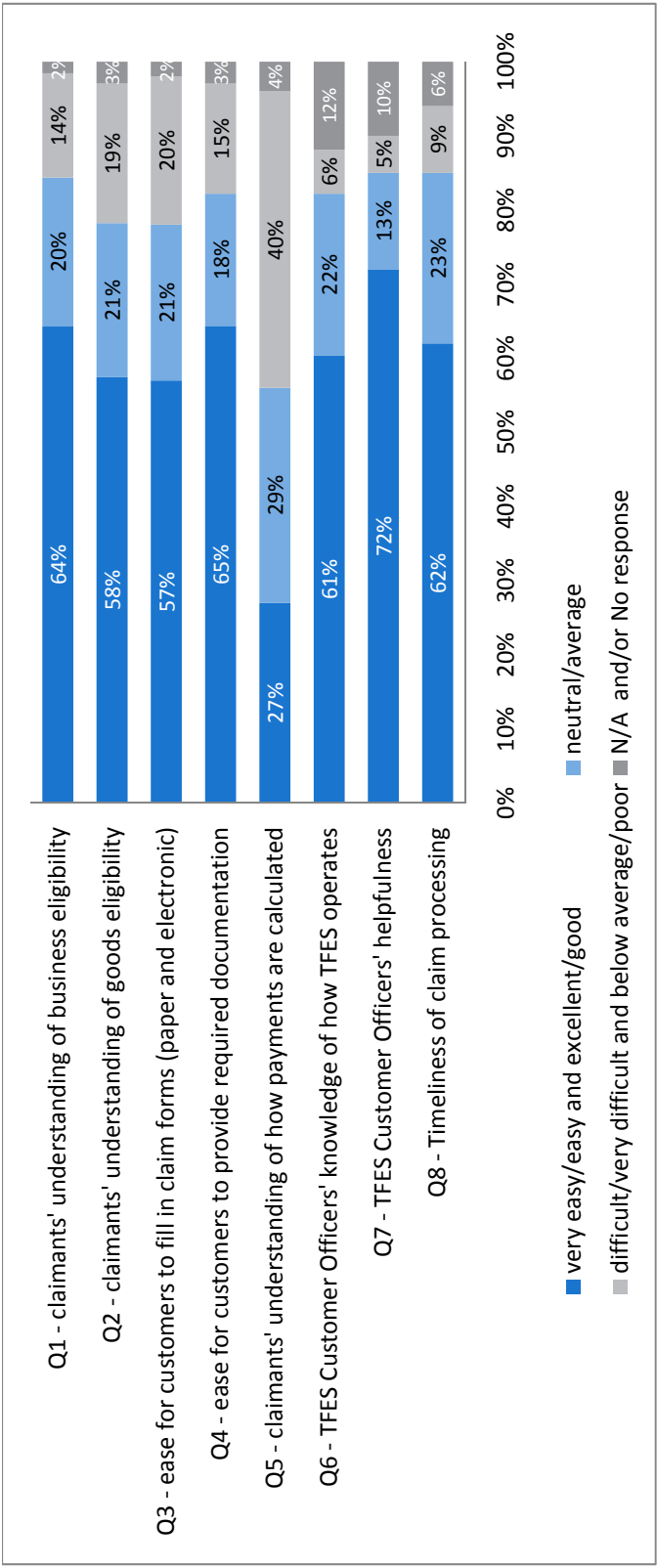
⁶⁹ In May 2010, the Minister for Infrastructure and Transport announced that no changes would be made to the Ministerial Directions.

⁷⁰ The ANAO extracted the survey participant sample from the TFES database. The survey sample was built using all claimants active in 2010 with an email address.

⁷¹ Survey participants were asked to rate a range of TFES administrative aspects on a five-point scale (from very easy to very difficult for Questions 1 to 5, and from excellent to poor for Questions 6 to 8). Respondents could also provide additional open-ended comments to each question. The final question (Question 9) was an open question asking for further comments or suggestions. Forty-two per cent of respondents offered open-ended comments.

Figure 2.1

Survey respondents' satisfaction levels with Centrelink's administration of TFES



Source: Analysis of responses from ANAO survey.

2.11 Overall, the survey showed that the majority of respondents (between 57 and 72 per cent) were satisfied with Centrelink's customer service and with TFES eligibility and claiming processes. Respondents recorded the highest satisfaction level, 72 per cent, against TFES Customer Officers' helpfulness, and several respondents commented that most officers demonstrated an in-depth knowledge of the Scheme and were willing to provide support and information. Satisfaction levels were comparatively lower for aspects relating to claimants' understanding of goods eligibility (58 per cent satisfied)⁷² and claimants' ease of completing TFES forms (57 per cent). Further, a number of claimants expressed frustration in their comments in relation to Centrelink's complex paperwork requirements (including having to send original supporting documents) and the amount of time required to claim for assistance.

2.12 The area for which respondents indicated the lowest satisfaction level was claimants' understanding of TFES payment calculations. The survey results (Question 5) showed that only 27 per cent of respondents thought it was very easy or easy to understand how their TFES assistance payments were calculated, while 40 per cent of respondents indicated that it was difficult or very difficult.

2.13 In their comments, respondents communicated the need for greater transparency of payment calculations and suggested Centrelink reintroduce breakdowns of assistance payments in payment advice notices. Centrelink advised that, following the implementation of Centrelink's new TFES IT system in March 2009, payment advice letters were altered and a breakdown of the total assistance received was no longer included. This change was introduced because Centrelink's letter generating system (ISIS) was unable to cope with the large amount of data required to provide payment breakdowns.

2.14 Prior to 2009, claimants and the public were also able to access a TFES rate calculator on Centrelink's website. Following substantial changes to the TFES IT system, the introduction of new commodity codes and the King Island and Furneaux Group intrastate component, DIT requested that Centrelink

⁷² Respondents were not asked to comment separately on northbound and southbound goods eligibility. As Schedule 1 of the Ministerial Directions lists all goods eligible for assistance under the northbound component, it is likely respondents that indicated it was difficult/very difficult to understand goods eligibility were southbound claimants.

remove the rate calculator due to concerns within DIT that the calculator was not providing accurate estimates for all possible payment combinations.

2.15 Claimants registered to lodge their claims electronically⁷³ have access to a 'rate estimator', and are also able to view an online breakdown of assistance payments by claim line/shipment. Centrelink indicated that claimants not registered to claim electronically were also able to access the rate calculator and the detailed breakdown of payment calculation, upon request. However, Centrelink does not actively promote this service, and the survey results suggested that most claimants were unaware of its availability.

2.16 An indicator of the Scheme's complexity, and of the extent to which this complexity is reflected in the arrangements for making TFES claims, is the emergence of a third party organisation that makes claims for TFES assistance on behalf of eligible businesses and individuals on a fee-for-service or commission basis. An analysis of claims data indicates that the activities of the third party organisation resulted in a 16 per cent increase in the number of TFES claimants between 2007–08 and 2009–10. In 2010–11, this organisation was also the largest claimant in terms of number of claims paid (30 per cent of all claims that year) and the second largest claimant in terms of assistance paid (representing nine per cent of the value of assistance paid through the Scheme that year).

2.17 While overall, the majority of claimants expressed satisfaction with Centrelink's customer service and TFES ease of use in the survey conducted by the ANAO, there remain opportunities to improve claimants' satisfaction with its delivery of TFES assistance, and in particular, claimants' understanding of how their TFES payments are calculated. One option available in this area is to improve the promotion of the 'rate estimator calculator' and of the online availability of detailed payment breakdowns.

Centrelink's processing of claims against timeliness targets

2.18 The timely assessment of claims supports the timely payment of assistance to eligible claimants, which in turn can help businesses to manage their cash flow and encourage future applications for assistance. The DIT–Centrelink MoU outlined the key performance indicators (KPIs) for

⁷³ Chapter 3 examines the electronic lodgment of claims process.

Centrelink's claim processing timeframes, and Centrelink reported its performance against these KPIs in its monthly reports to DIT.⁷⁴ The KPI targets were:

- 80 per cent of claims to be finalised within 15 days;
- 95 per cent of claims finalised within 30 days; and
- less than 150 claims on hand (period July–March) or 200 claims on hand (period April–June).⁷⁵

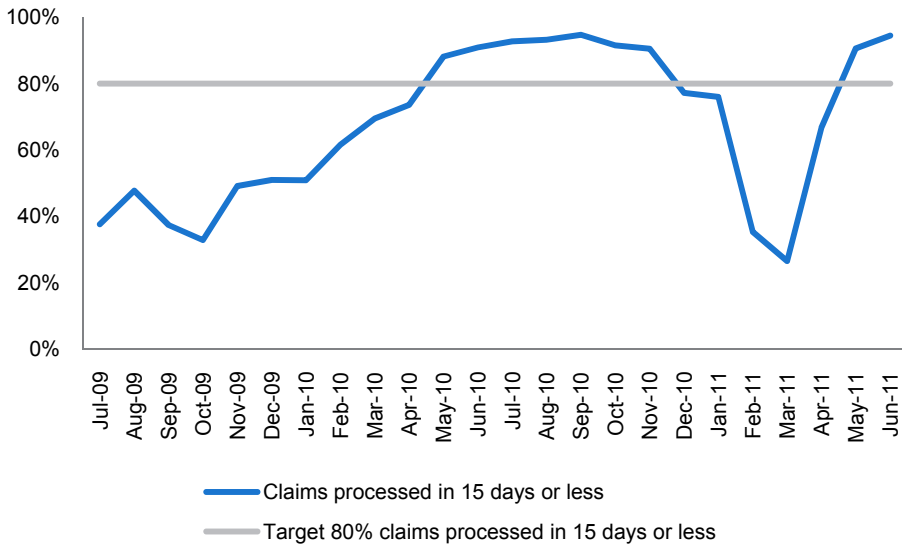
2.19 The ANAO analysed Centrelink's performance against the timeliness KPIs using the data extract from Centrelink's claim processing database, *Staff Online*. The ANAO's results are in line with Centrelink's reported performance (Figure 2.2 and Figure 2.3).

⁷⁴ The new Head Agreement, which replaced the MoU in August 2011, introduces different percentage thresholds and timeliness targets. The Head Agreement also establishes a distinction between claims lodged in paper form and claims lodged electronically, which have shorter processing timeframes. The number of claims on hand has also been revised upwards to 300.

⁷⁵ Includes claims that are classified as 'rejected'. Centrelink advised that timeliness was measured from the day claims were registered, which usually occurred the day claims were received by Centrelink.

Figure 2.2

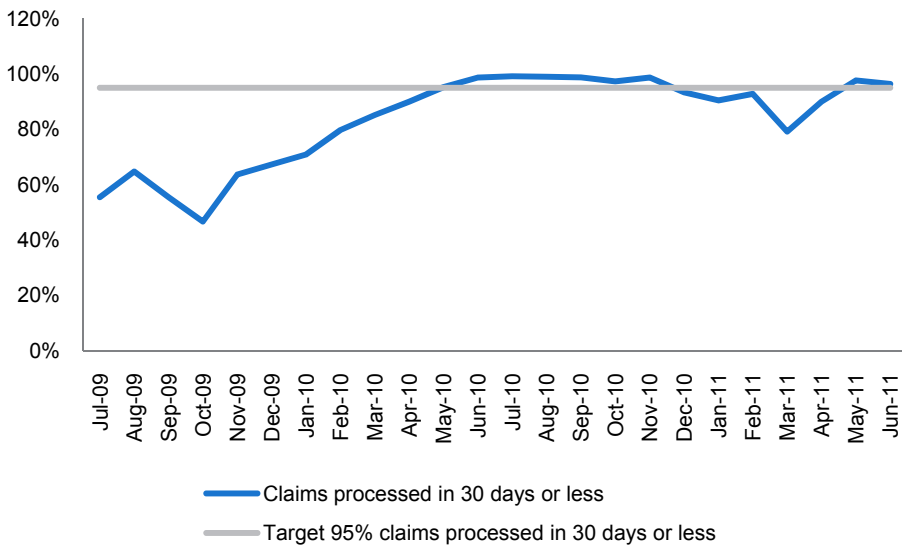
Percentage of claims finalised in 15 days or less, July 2009–June 2011



Source: ANAO analysis.

Figure 2.3

Percentage of claims finalised in 30 days or less, July 2009–June 2011

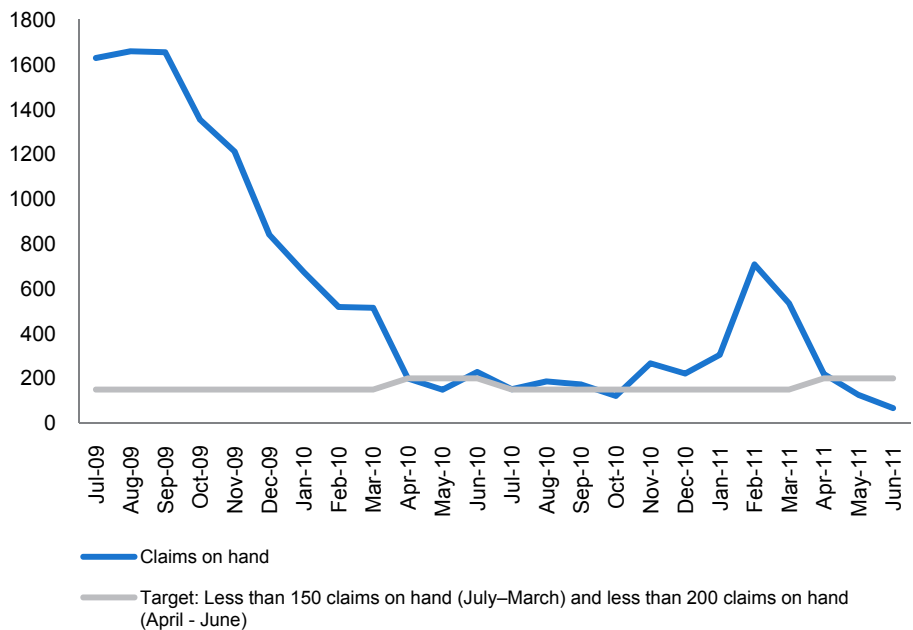


Source: ANAO analysis.

2.20 Centrelink met its 15-day and 30-day KPIs between May and November 2010 and May and June 2011. For the months Centrelink did not meet these two KPIs, Centrelink also had correspondingly high numbers of claims on hand, in particular between July and December 2009 (Figure 2.4).

Figure 2.4

Number of claims remaining on hand each month, July 2009–June 2011

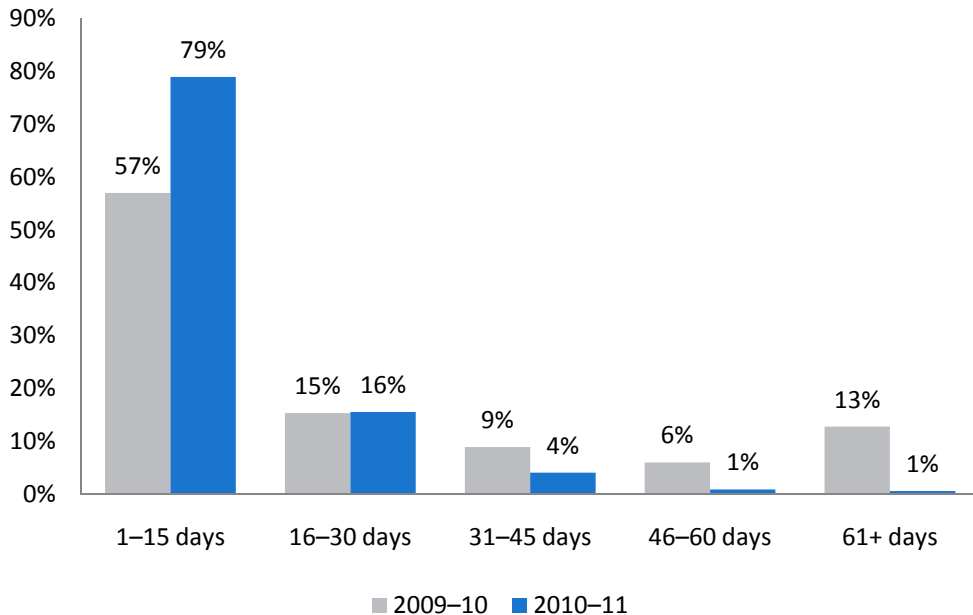


Source: Centrelink monthly reports to DIT (July 2009 to June 2011).

2.21 While Centrelink’s timeliness against its KPI targets was not consistent from month to month between July 2009 and June 2011, there was an overall improvement in the time taken by Centrelink to process claims in 2010–11 over the previous year. In 2009–10, 57 per cent of claims were processed in 15 days or less; this proportion increased to 79 per cent in 2010–11. There was also a marked reduction in the number of claims that took more than 45 days to assess (Figure 2.5).

Figure 2.5

Time taken by Centrelink to process TFES claims (including rejected claims), 2009–10 and 2010–11



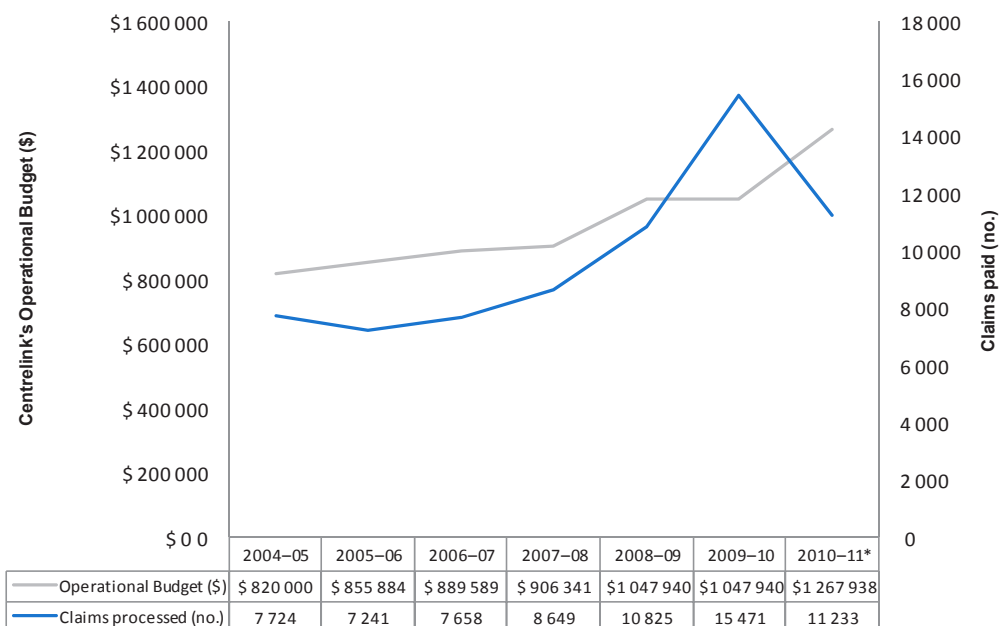
Source: ANAO analysis.

2.22 Centrelink's backlog of TFES claims was an area of focus for questioning of departmental officers from DIT and Centrelink in the relevant October 2009, February 2010 and May 2010 Senate Estimates hearings, and was raised as an issue through the media by a major claimant in November 2009. Claimants also made representations to DIT about the delays and the financial impact of the backlog on their businesses. The impact of the time taken to process claims on participating businesses was also raised as an issue by respondents to the ANAO's survey. Respondents noted that the processing and payment times were inconsistent (between four and 30 plus days), which may have caused cash flow issues for some businesses.

2.23 Centrelink largely attributed the backlog in 2009–10 to the year-on-year increase in the number of TFES claims since 2006–07, and in particular in 2009–10, when the number of claims processed increased by 43 per cent over 2008–09. By comparison, between 2006–07 and 2009–10, Centrelink's operational budget increased by 18 per cent (Figure 2.6).

Figure 2.6

Number of claims processed and Centrelink's operational budget (GST inclusive), 2004–05 to 2010–11



Note: * The 2010–11 operational budget included \$220 000 (including GST) one-off additional funding provided by DIT in the last quarter 2011 to address the claim processing backlog.

Source: Centrelink, *Monthly Performance Reports*, various; Department of Infrastructure and Transport, internal document; Department of Infrastructure and Transport, *Annual Reports*, various; and ANAO data analysis.

2.24 Since early 2010, Centrelink implemented a number of strategies to reduce the backlog, including increasing the resources dedicated to processing claims. Centrelink also engaged with DIT to determine a level of funding for Centrelink's administration that reflected the increase in the number of claims and the resources needed to process these claims in a timely manner.⁷⁶ The budget negotiations resulted in DIT providing Centrelink an additional \$220 000 (GST inclusive) in the last quarter of 2010–11 to manage the TFES claims backlog.⁷⁷

⁷⁶ In this context, DIT sought, as part of its portfolio submission for the 2011–12 Budget, extra funding (approximately \$1 million) for Centrelink's administration costs. This aspect of the submission was unsuccessful.

⁷⁷ The payment was conditional on Centrelink meeting its KPI target of 200 or less claims on hand.

2.25 The decrease in the number of claims processed in 2010–11, combined with DIT's one-off increase to Centrelink's operational budget, and Centrelink's work to reduce a backlog of claims, resulted in a significant improvement in the time taken to process claims. Between 2009–10 and 2010–11, the number of claims processed in less than 15 days increased from 57 per cent to 79 per cent.

Customer feedback

2.26 It is important for agencies to gather and analyse customer feedback and satisfaction levels as this information can assist to identify and inform improvements to service delivery or administrative processes.⁷⁸ While TFES involves a relatively small pool of claimants and does not warrant the implementation of extensive feedback mechanisms, there is scope for Centrelink to undertake activities to determine claimants' satisfaction with its administration of TFES. Centrelink could use the information gathered to identify and implement actions in those areas where service delivery may be improved and ultimately increase claimants' satisfaction levels.

2.27 Centrelink's Customer Service Charter⁷⁹ expressed the agency's commitment to monitor its customer service performance through regular surveys and other stakeholder engagements. Further, the former MoU outlined that Centrelink, as part of its services in delivering TFES, was to encourage adherence to the Centrelink Customer Service Charter and maintain a feedback database.⁸⁰ The MoU also set out a KPI related to customer satisfaction and service delivery: 'customers are satisfied with Centrelink services'. The new 2011 Head Agreement between DHS and DIT does not include provisions for customer feedback mechanism, with the new KPI focusing on the number and type of customer complaints rather than customer feedback more generally.⁸¹

2.28 Until 2003, Centrelink hosted Value Creation Workshops to help gather customer feedback about the Scheme and to establish the extent to which

⁷⁸ Commonwealth Ombudsman, *Better Practice Guide to Complaint Handling*, April 2009, Canberra, p.2.

⁷⁹ Centrelink, *Centrelink's Customer Service Charter*, available from <[http://www.centrelink.gov.au/internet/internet.nsf/filestores/co301a_1003/\\$file/co301a_1003en.pdf](http://www.centrelink.gov.au/internet/internet.nsf/filestores/co301a_1003/$file/co301a_1003en.pdf)> p.8 [accessed 6 June 2011].

⁸⁰ Centrelink and the Department of Infrastructure and Transport, *Memorandum of Understanding between Centrelink and the Department of Transport and Regional Services*, August 2002, Schedule 1, Section 2.

⁸¹ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Protocol 2, Section 3.

customers were satisfied with Centrelink's administration of their claims. Since 2003, Centrelink did not undertake activities to formally collect and report on TFES customer feedback. In March 2011, Centrelink established a formal mechanism to receive claimants' feedback, including complaints, and the August 2011 Head Agreement between DHS and DIT requires DHS to report to DIT on the number and type of customer complaints. Between March 2011 and July 2011, seven complaints had been lodged, four of which related to concerns about timeliness of claim processing.⁸²

Appeal and review mechanisms

2.29 TFES is an executive scheme; while this arrangement allows for greater flexibility for adjustments to be made to administrative arrangements as circumstances change, affected persons' review and appeal rights are more restricted than in programs that rely on legislated power.⁸³ Decisions made under executive schemes are not subject to review under the *Administrative Decisions (Judicial Review) Act 1977*, and so TFES claimants cannot appeal decisions through the Administrative Appeals Tribunal. The Commonwealth Ombudsman is the only administrative law agency that can review decisions made under executive schemes.⁸⁴ These restrictions emphasise the importance of effective internal review processes to provide procedural fairness and natural justice to program stakeholders.

2.30 The Commonwealth Ombudsman sets out a range of best practice principles for agencies to consider when developing and administering executive schemes. One principle is focused on complaints handling and review of decisions⁸⁵, and outlines that agencies should ensure that:

- a complaint handling mechanism is established;
- there are processes for internal reviews; and
- applicants are informed of the reasons for the review decision and their right to contact the Ombudsman if they are dissatisfied.

⁸² Centrelink's timeliness is discussed in paragraphs 2.18 to 2.25.

⁸³ Commonwealth Ombudsman, *Executive Schemes*, Commonwealth Ombudsman, Canberra, Australia, August 2009, available from <http://www.ombudsman.gov.au/files/investigation_2009_12.pdf> [accessed 15 August 2011].

⁸⁴ *ibid.*, p. 4.

⁸⁵ *ibid.*, p. 29.

The Tasmanian Freight Equalisation Scheme Review Authority

2.31 The Ministerial Directions include provisions for a Tasmanian Freight Equalisation Scheme Review Authority (the Authority), to which applications may be made for a review of a decision by Centrelink or DIT, by or on behalf of a person whose interests are affected by the decision. The Authority is to consist of a chairperson and two other members appointed by the Minister for Infrastructure and Transport. The Authority has only convened once, in 1998, when it reviewed TFES itself, and has never convened to review claims. While the Authority can reconvene at any time, it is currently non-operational, with all positions being vacant. Instead, DIT and Centrelink use a two-tier system to address claimants' requests for a review of a decision made by Centrelink about a TFES claim.⁸⁶

The two-tier claim assessment review process

2.32 Claimants have six months from the date of the original assessment of a claim to seek a reassessment of a decision in relation to that claim. Centrelink advised that reviews relating to a minor assessing error or changes to payment amounts are initially considered by the original decision-maker within Centrelink. For issues involving eligibility of the claimant or goods; significant issues with the amounts of assistance paid/not paid; or a claimant disagreeing with the original decision-maker's review decision, requests for review are considered by the manager and the Team Leader of the Tasmanian Transport Programs team. Centrelink advised that, following this initial review, if the claimant remains dissatisfied with the review decision, the claimant can also request a second-tier review by DIT.

2.33 Twenty-three reviews were requested by claimants between 2008–09 and 2010–11.⁸⁷ The majority of decisions reviewed related to claimant or goods eligibility (19 out of 23), and most were affirmed (15 out of 23). Claimants requested a further review by DIT in 11 cases.

2.34 DIT's and Centrelink's review processes are appropriate, and in line with other review mechanisms previously used by Centrelink to administer a

⁸⁶ DIT indicated that the functions of the Authority have become redundant with the introduction of a two-tier review process and the use of independent agencies such as the Productivity Commission and the BITRE to provide the Government with advice on the Scheme.

⁸⁷ Of the 23 reviews that were conducted across the three years, 19 occurred in 2010–11. Centrelink and DIT advised that the notable increase in the number of reviews in 2010–11 was largely the result of requests from a third party organisation claiming on behalf of a large number of businesses.

number of schemes and programs on behalf of other agencies. In particular, TFES claimants are provided with opportunities for more than one review of any decision; claimants may seek a review by the agency with policy responsibility for the Scheme, rather than being restricted to reviews by an interested agent; and claimants retain the right to raise an issue with the Ombudsman. However, as discussed in the following section, there are opportunities to articulate these arrangements more clearly to claimants through improvements in review promotion arrangements.

Promotion of the review and appeal system

2.35 While the Ministerial Directions and the Guidelines refer to the Review Authority as the reviewing body for claimants seeking a reassessment of their claims, the Review Authority is not currently operational. In its place, DIT and Centrelink administer the two-tier internal review process discussed above. However, these arrangements are not made completely clear in communications with program stakeholders.

2.36 The information provided on Centrelink's website and in the TFES information brochure *'TFES Guidelines for Customers'*⁸⁸ did not indicate, for example, that the Review Authority was not the avenue currently used to review claim decisions and that a different review mechanism is in place. These two information sources, together with Centrelink's letters notifying claimants whether they were eligible to receive assistance and Centrelink's payment advice letters, invited claimants dissatisfied with a claim decision to contact Centrelink to request a review of this decision, without providing details on how the review will be conducted. Further, DIT's and Centrelink's letters advising claimants of the outcome of the review did not clearly indicate that in cases of dissatisfaction with the review outcome, the claimant could contact the Ombudsman.

2.37 There is scope for the agencies to improve the information provided to claimants about their rights of review and appeal. While the Scheme is of a relatively small size and does not warrant the establishment of overly formal information mechanisms, the administration of the Scheme would gain in transparency if DIT and Centrelink indicated more clearly and consistently to claimants that the review and appeal mechanisms for TFES consist of a

⁸⁸ Centrelink, *Tasmanian Freight Equalisation Scheme Guidelines for Customers (TAS007)*, available from <<http://www.centrelink.gov.au/internet/internet.nsf/forms/tas007.htm>> [accessed 31 May 2011].

two-tier system (that does not include the Review Authority), and that claimants who remain dissatisfied with the outcome of the two-tier review system may contact the Ombudsman.

3. Processing Claims for Assistance

This chapter discusses Centrelink's⁸⁹ processes for assessing claims for TFES assistance, including the processes in place for determining eligibility for assistance and verifying information provided by claimants.

Introduction

3.1 Agencies delivering financial assistance to citizens and businesses should seek to develop administrative arrangements that strike an appropriate balance between accessibility and the need to verify eligibility and support accurate payment calculations. Increasingly, citizens expect that such arrangements will be supported by public information that can inform a self-assessment of the likely costs and benefits of applying for assistance, and will take advantage of developments in information technology to provide more streamlined, timely claims.

3.2 As a small industry support scheme, TFES is different to the large social welfare programs more typically administered by Centrelink, and accordingly, Centrelink developed specific, stand-alone administrative systems and processes for TFES. The TFES claim application and assessment processes mirror the complex range of program parameters for the various TFES components that, in turn, reflect the number of variables that can affect levels of sea freight disadvantage for different classes of businesses, goods, and freight approaches.

3.3 Managing this degree of complexity with a small team creates a higher level of risk than might exist for more straightforward income support programs delivered using widely established Centrelink systems. In particular, the Scheme's primary reliance on manual processes and the accuracy of supporting documentation increases the risk that eligibility may not be assessed correctly, or that information subsequently used to support payment calculations is incorrectly recorded.

⁸⁹ In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.

3.4 In order to assess the extent to which Centrelink mitigated these risks, the ANAO:

- reviewed Centrelink’s claimant registration and claim assessment processes;
- identified stored information that had the greatest potential to adversely affect subsequent payment calculations; and
- analysed claims data to determine whether the integrity of this stored information was preserved throughout the application assessment and payment calculation processes.

3.5 The timeliness of claims assessment processes, and claimants’ satisfaction with those processes, is discussed in Chapter 2.

Claiming for TFES

3.6 Individuals or companies who incur the costs of shipping eligible non-bulk goods by sea can receive TFES assistance. Further eligibility criteria apply depending on the component of TFES under which assistance is being claimed (see Chapter 1 for an overview of the TFES components). Guidelines and information brochures are publicly available to assist claimants to fill out claims for TFES assistance.⁹⁰

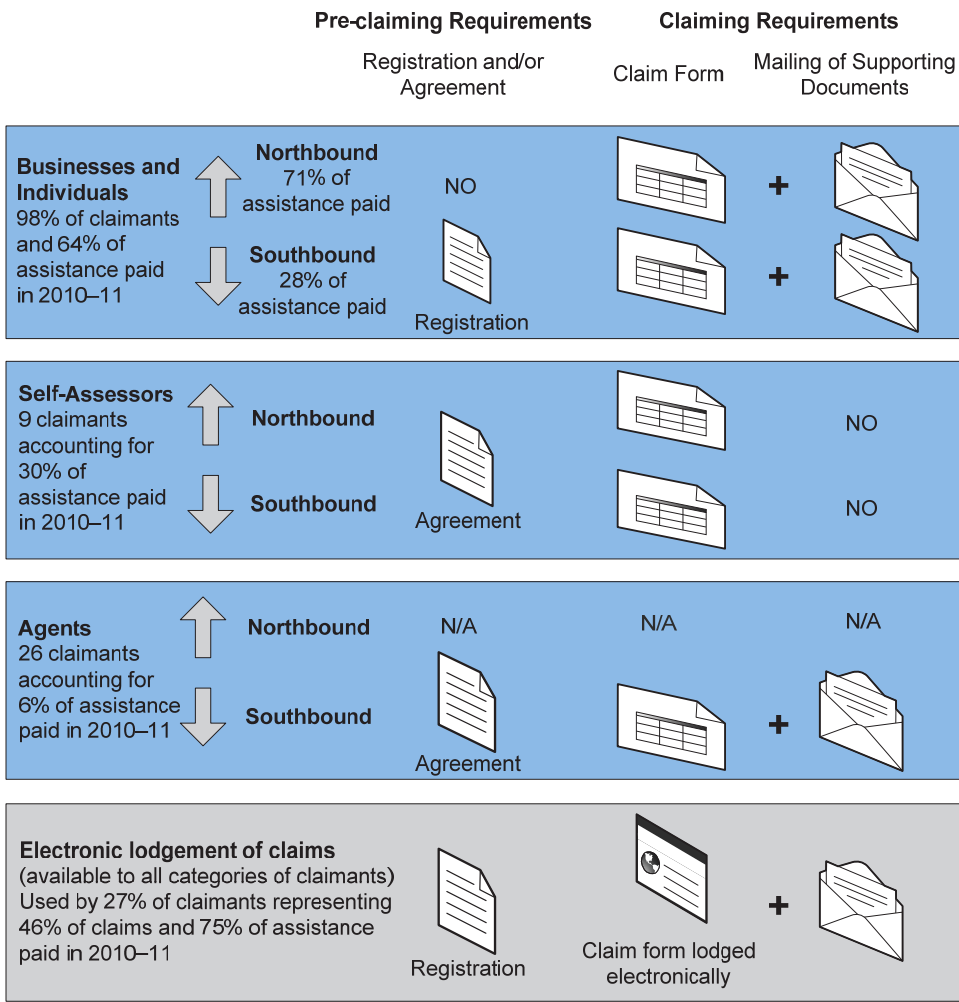
3.7 The core of the TFES claiming arrangements is the submission of a single claim form. While the claim form is identical for almost all claimants, differences between northbound and southbound claiming requirements, special conditions applying to two categories of claimants (‘self-assessors’ and ‘agents’), and the possibility of lodging claims electronically, have introduced variations in the number and nature of the other conditions that claimants must meet in order to claim for TFES assistance.⁹¹ Figure 3.1 provides a schematic presentation of the claiming requirements for the different categories of claimants. The remainder of this section describes these claiming requirements.

⁹⁰ Centrelink, *Tasmanian Freight Equalisation Scheme Guidelines for Customers (TAS007)*, available from <<http://www.centrelink.gov.au/internet/internet.nsf/forms/tas007.htm>> [accessed 31 May 2011].

⁹¹ Further variations, out of the scope of this audit, exist due to specific claiming requirements for the intrastate component and the three special categories (sports persons, entertainers and brood mares).

Figure 3.1

TFES claiming requirements for the different categories of claimants



Source: ANAO analysis

The TFES claim form

3.8 The ‘Claim for Assistance’ form⁹² is used by all claimants⁹³ seeking assistance under TFES. Once completed, the form is submitted to Centrelink,

⁹² Centrelink, *Tasmanian Freight Equalisation Scheme Claim for Assistance*, available from <<http://www.centrelink.gov.au/internet/internet.nsf/forms/tas002.htm>> [accessed 31 May 2011].

⁹³ Claimants using the electronic lodgement facility must complete the same claim form in an electronic version.

either by mail, electronically, or physically in a Centrelink Customer Service Centre. The form includes three main areas (see Table 3.1 for more detail about these areas):

- claimant details—claimants’ contact details and other claimant information, including the nomination of authorised signatories;
- shipment information – comprising 17 fields that claimants must use to provide goods and freight details for each shipment; and
- declaration and signature.

Table 3.1

The TFES claim form

Information required in the core TFES claim form

The claimant details section (including the claimants’ bank details) at the front of the claim form must be completed with each claim for assistance submitted. Claimants are, however, only required to complete the claimant information section at the back of the form prior to, or with, the first claim, and whenever any details change. For this section, claimants are to advise their principal business activities and provide their trading name, Australian Business Number or Australian Company Number, bank account details and details of authorised claim signatories.⁹⁴ This information is needed for Centrelink officers to assess claimant eligibility and/or for claim assessment verification purposes.

The shipment information section is a table comprising 17 fields seeking information on the goods and freight for which assistance is sought. The information required includes: the transport company used; the goods shipped; the date of shipment; the invoice number, and whether the invoice for the shipment has been paid; the weight or volume of the goods, and the number of containers / trailers filled; whether the goods are ‘high density’ and whether or not they are refrigerated; the origin/destination points and type of transport (for example, wharf-to-wharf); and the total freight paid.

The declaration and signature section of the form must be completed for each claim for assistance form submitted. For companies, the signatory must be nominated and authorised by the manager of the company (identified in the claimant information section). The declaration requires the signatory to certify that the claim is not false or misleading, the freight costs for shipments were paid prior to completing the form, goods were not intended for export and/or were not imported, and original documentation relating to shipments that are not retained by Centrelink are to be kept by the claimant for a period of five years.

Source: ANAO analysis.

Supporting documents

3.9 The information specified on the claim form must also be accompanied by supporting documents for all shipments included in the claims. Centrelink

⁹⁴ Clause 22.4 of the Ministerial Directions specifies that, if the claimant is a company, the claim is required to be signed ‘by a senior officer of the Company authorised for that purpose for the Company’.

officers use these documents to verify the information provided in the claim form. 'Self-assessed' claimants are exempt from this requirement.

3.10 The evidence required for shipments varies depending on whether the claimant has arranged the shipment directly or whether a supplier of the goods has arranged shipping for the claimant. For shipments directly arranged by the claimant, claimants must attach to the claim:

- an original sea carrier, freight forwarder or broker invoice; and
- a copy of the consignment note⁹⁵ for the transport of the goods, if all the shipping details are not itemised on the invoice.

3.11 For shipments that have been arranged by the supplier of the goods, claimants must provide the original invoice issued by the supplier for the purchase of the goods. If the original invoice does not include itemised shipping details for claimants engaged in primary industries, a completed 'suppliers certificate' is also required, which differentiates the amount of freight paid from the cost of the goods. The supplier certificate's information is stored electronically by Centrelink for reference when similar claims are lodged by the same claimant. The supporting documentation must be mailed to Centrelink, or dropped at a Centrelink Customer Service Centre.

Pre-claiming business registration for southbound component claimants

3.12 As noted in Chapter 1, southbound component claimants that are engaged in the manufacturing and mining industries are first required to register their businesses, and the goods for which they wish to claim, with Centrelink. Claimants under the southbound component engaged in primary industries (fishing, agriculture and forestry), and claimants under the northbound component, however, do not need to register with Centrelink prior to claiming assistance.⁹⁶

3.13 In order to apply for registration, claimants must submit a business registration form to Centrelink detailing their principal business activity and

⁹⁵ A consignment note is a document typically issued by a carrier (freight company), which can be countersigned by the sender and receiver of the goods, and includes details and instructions relating to the shipment such as the point of origin of the consignment, its destination, route and method of shipment, and the amount charged for the carriage.

⁹⁶ Only claimants whose main activity corresponds to Division B or C of the Australian and New Zealand Standard Industrial Classification (ANZSIC) are eligible. ANZSIC provides a basis for the standardised collection, analysis and dissemination of economic data on an industry basis for Australia and New Zealand.

providing details about the goods they are, or will be, shipping.⁹⁷ Claimants must provide:

- a general description of each good/item, including the use of the item in a claimant's business processes;
- a letter from the manufacturer/supplier stating where the item was manufactured; and
- details of the freight paid, and if the freight cost is included in a 'free into store'⁹⁸ price, a letter from the claimant's manufacturer/supplier detailing the freight component.

3.14 Claimants submit this business and goods information once, and are required to keep Centrelink informed of any change in circumstances. Centrelink indicated that up to 10 business registrations can be submitted per week.

Assessing business registrations

3.15 When assessing business registrations, Centrelink's verification process focused on confirming whether:

- the principal activity of a claimant's business is manufacturing or mining; and
- the goods for which the claimant wishes to seek future assistance are raw materials or equipment / machinery made on the mainland, and are to be used in the manufacturing and mining processes of the claimant's Tasmanian business.

3.16 To help verify the business's principal activity, the assessor can:

- search the internet for information about the business or company, including verifying that the business is located in Tasmania and whether it has received any government grants (and for what purpose);
- crosscheck with the Australian Business Number or Australian Company Number registers;

⁹⁷ Registered claimants may, at any time, apply to have further goods used in their production processes approved as eligible items.

⁹⁸ Some manufacturers/suppliers invoice customers using a 'free into store' price, which does not distinguish the freight component from the total price charged. TFES assistance is calculated by assessing the sea freight cost disadvantage of shippers of eligible goods and, therefore, Centrelink requires the actual freight cost.

- consult with the Australian and New Zealand Standard Industrial Classification (ANZSIC) to determine whether the business is eligible to be classified under the appropriate Division; and
- send out a supplementary questionnaire for the claimant to complete, in cases where the assessor identifies the need for further information to determine the main business activity.

3.17 Each good identified by the claimant must be registered and verified separately. The assessor is required to check the supporting documentation provided by the claimant with the business registration request, and can use public information to verify suppliers' or manufacturers' locations and business activities. On occasion, the assessor may contact the supplier or manufacturer by phone, or visit the potential claimant to confirm the details provided.

3.18 Once the relevant verification checks have been undertaken, the business's application is forwarded, together with the supporting documents from the verification activities, to an authorised officer for approval. The officer either accepts or declines the claimant's registration application, and the claimant is notified of the outcome by letter.

Recording businesses and goods information

3.19 The information relating to the claimant's business and goods, together with the results from the desktop research undertaken by the assessor, is recorded in the Centrelink electronic claim processing system, *Staff Online*, and in several other databases. *Staff Online* provides a repository of essential information that is used to determine the eligibility of the goods and the amount of assistance to be paid when future claims are lodged. For example, the supplier's letter provides Centrelink with evidence that the goods are not imported from overseas, or have undergone a manufacturing process on the Australian mainland prior to shipment to Tasmania. The information is accessed, maintained and updated by assessors in the course of their verification of claims.

TFES claimants with a different status

3.20 Two categories of claimants are subject to different claiming requirements or specific eligibility criteria: the 'self-assessors' and the 'agents'.

Self-assessed claimants

3.21 A small number of TFES claimants are invited by Centrelink and DIT to become, upon signature of a specific agreement, 'self-assessed'. Self-assessed claimants (also called self-assessors) submit the same claim form as regular claimants. However, self-assessors are not required to submit supporting documents, and must keep records of all documents for five years. Self-assessed claimants also agree to arrange an annual independent audit of the claim forms submitted to Centrelink and the supporting documents held by the claimant, with the results to be provided to Centrelink. In 2010–11, there were nine self-assessed claimants who received 30 per cent of all assistance paid through TFES that year.

3.22 The initiative of providing for self-assessed claimants was introduced as an efficiency measure. Centrelink and DIT selected self-assessors from a pool of large and regular claimants that have a history of compliance with the requirements to claim for TFES assistance, including submitting accurate claims. Unlike all other claimants, self-assessors' claim forms are not verified against supporting documents before being accepted and paid.⁹⁹

Agents

3.23 Agents are companies that claim TFES assistance on behalf of southbound and King Island and Furneaux Group claimants. The status of agents is described in the Ministerial Directions.¹⁰⁰ Agents submit claims in the same format as those lodged directly by a claimant; however, agents are required to include additional details when the claim is being made. In 2010–11 there were 24 approved agents, accounting for six per cent of the assistance paid under the Scheme that year.

3.24 To be accepted as agents, companies must be engaged in supplying goods to eligible claimants. Agents must enter into an agreement with Centrelink, which requires them to:

- submit a sample of completed and signed declarations from the respective claimants the agents are representing;

⁹⁹ Chapter 4 examines the compliance activity conducted by Centrelink to gain a level of confidence on the self-assessor claims accuracy.

¹⁰⁰ Minister for Infrastructure, Transport, Regional Development and Local Government, *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme*, September 2009, Section 12.

- pass on the full amount of assistance received to the respective claimants, annotate each claimants' invoice with the amount of TFES assistance included, and acknowledge the provision of assistance by the Australian Government; and
- retain supporting documents for a five-year period and make them available for any compliance checks.

3.25 Agents are subject to a six-month trial, with a compliance review conducted by Centrelink at the end of this period. Agents that demonstrate a good record of compliance can continue their status as agents and actively submit claims. From this point, Centrelink performs annual compliance reviews on each agent.¹⁰¹

Claimants using Centrelink's electronic lodgement facility (TBUS)

3.26 Since 2009, regular claimants lodging claims containing a large number of shipments¹⁰² have the opportunity to submit claims electronically via the Tasmanian Bulk Upload System (TBUS), which operates in three steps:

- Registration—claimants must first register by contacting Centrelink by phone, email or online in order to obtain and complete a user registration form. Once registered, claimants are supplied with a login ID and password.
- Claiming—claimants enter information for each shipment into an online spreadsheet template that is pre-populated with the appropriate data input formulae.
- Mailing supporting documentation—as is the case for regular claimants, TBUS users must send original supporting documents to Centrelink.¹⁰³

3.27 Claimants' access to electronic lodgement was introduced as an efficiency measure, reducing the amount of data entry that Centrelink needed

¹⁰¹ Refer to Chapter 4 for an examination of Centrelink/DHS compliance activities.

¹⁰² Less regular TFES claimants are offered the option of submitting their claims online via Centrelink's 'Third Party Portal' facility. As is the case for TBUS, these claimants must send original supporting documents by post. Centrelink advised that the 'Third Party Portal' facility has been available to TFES claimants since 2009, but by July 2011 was only used by 3 to 5 claimants in any given year.

¹⁰³ DIT indicated that, before 2009, a disk lodgment facility was in use that allowed claimants to submit spreadsheets containing shipment information instead of manually completing the lines on a standard claim form. As with TBUS, original documentation had to be posted to Centrelink's office.

to perform when processing paper forms. In 2010–11, 27 per cent of claimants used the TBUS facility, representing 46 per cent of total claims submitted and 75 per cent of the total assistance paid that year.¹⁰⁴

3.28 While this measure has generated some efficiency gains, the full benefits of electronic lodgement have not been realised for claimants or for Centrelink. For example, claimants are still required to post all of their original supporting documentation to Centrelink. Claimants must also re-enter, with each electronic claim, all of their business and bank account details and the details for each shipment, even when this information is similar from one claim to the next. A number of respondents to the ANAO's survey commented about the time required to prepare supporting documents and to enter claimant details data for each new electronic claim.¹⁰⁵

3.29 Centrelink has recently considered further efficiency improvements to its electronic lodgement facility. In 2010, Centrelink trialled the electronic lodgement of scanned supporting documents, but advised that due to costs and issues with the quality of the documents scanned the trial was discontinued.

3.30 There remains scope, however, for Centrelink to optimise the electronic claim lodgement facility. For instance, Centrelink could consider the feasibility of rolling over information from previous claims and seeking confirmation that details have not changed – exception-based updating – rather than requiring information to be re-entered into the TBUS system for each new claim. This improvement may potentially reduce the administrative burden for claimants. Although TBUS eliminates the need for Centrelink to manually enter claim information on the TFES IT system, the time gain is limited because assessors still undertake similar verifications for TBUS and paper claim forms.¹⁰⁶ Finally, the electronic lodgement option is not easily found on the Centrelink website¹⁰⁷, and Centrelink does not actively promote this facility.

¹⁰⁴ ANAO analysis of TFES database. A number of claimants (117) were both TBUS and non-TBUS users.

¹⁰⁵ Refer to Chapter 2 for further survey results.

¹⁰⁶ Refer to the next section for a description of Centrelink's claim assessment processes.

¹⁰⁷ The *How to Claim* section in Centrelink's TFES homepage did not provide information on, or links to, the TBUS electronic lodgment template or user guide. These could only be found by typing 'electronic lodgment template' or 'TBUS' into the search function on Centrelink's website or by clicking the link 'Changes to describing your goods' on Centrelink's TFES homepage.

Assessing claims

3.31 Once the TFES claims and the supporting documentation are received by Centrelink, Centrelink officers undertake a claim assessment process. Since 2009, Centrelink has been using a new IT system to process TFES claims called *Staff Online*.¹⁰⁸ *Staff Online* fulfils several functions. For all claimants and claims, including information from claims lodged electronically through TBUS, *Staff Online* stores:

- claimants' information, including contact and bank account information, authorised claim signatories, and other relevant business details;
- the claim information provided on the claim form; and
- assistance calculation and payment details.

3.32 Once claims information has been entered by Centrelink officers, *Staff Online* automatically calculates the assistance payable for each shipment and the total assistance for each claim. Using *Staff Online*, Centrelink's approach to processing and assessing claims comprises five main steps (Table 3.2).

¹⁰⁸ DIT provided Centrelink with additional funding to develop, implement and maintain the TFES IT system. Centrelink received a total of \$1.6 million (including GST) between 2007–08 and 2010–11 for IT system development and support. See Glossary for a definition of *Staff Online*.

Table 3.2

Claim assessment steps

Steps	Responsibility	Main tasks performed
Step 1 - Receipt and registration	Administration officer	<ul style="list-style-type: none"> • Verification of claimant's details. • Allocation of a registration number.
Step 2 - Verification of claim information	Assessor	<ul style="list-style-type: none"> • Verification of shipment information against the supporting documents and information stored on file by Centrelink (including registered goods, supplier eligibility, and freight rates). • Records potential claim modifications and obtains claimant's approval of the modifications.
Step 3 - Data entry on <i>Staff Online</i>	Administration officer, then Assessor	<ul style="list-style-type: none"> • Administration officer enters verified claim information on <i>Staff Online</i>. • Assessor verifies the claim data entered on <i>Staff Online</i> against the hardcopy claim information. • Assessor accepts the claim on <i>Staff Online</i>, and generates a payment advice letter to be sent to the claimant.
Quality Assurance* - 10 per cent of claims randomly selected daily	Authorised officer	<ul style="list-style-type: none"> • Conducts a re-assessment of the claims identified for QA.
Step 4 - Claim payment authorisation	Authorised officer	<ul style="list-style-type: none"> • Verifies claimant's details, claim registration number, total payment and bank account details recorded on <i>Staff Online</i> against the hardcopy claim information. • Authorises TFES assistance payment.

Note: *Quality assurance is conducted on 100 per cent of claims processed by 'new' assessors. This is discussed in more detail in the section on Quality Assurance in Chapter 4.

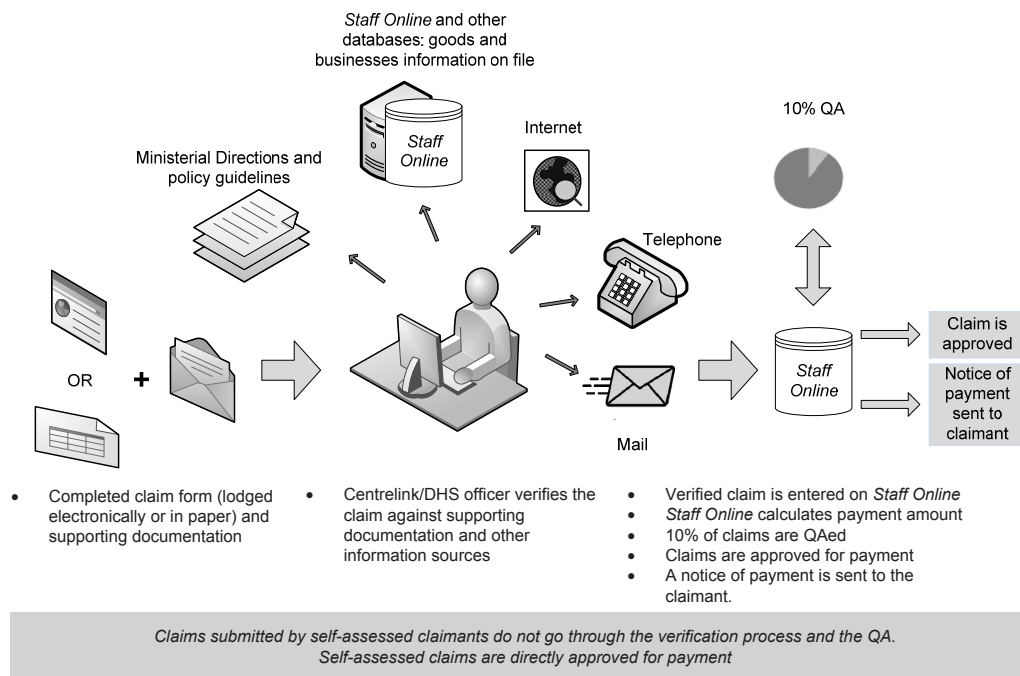
Source: ANAO analysis.

Claim verification process

3.33 For the vast majority of claimants, Step 2, the verification of claim information, is the most complex and time-intensive step of the assessment process (Figure 3.2). This step is similar to the business registration check, in that a large amount of information needs to be manually verified against a range of internal and external data sources.

Figure 3.2

TFES claims verification process



Source: ANAO analysis.

3.34 While Centrelink does not record or analyse the number and most common types of errors, Centrelink considers that undertaking resource-intensive upfront verification of claims is necessary because a large proportion of claims¹⁰⁹ contain errors or issues requiring modification and follow-up with the claimant. During audit fieldwork, the ANAO observed that assessors identified errors or issues that required follow-up with the claimant or relevant parties in five of the eight claim assessments observed.

3.35 The verification process is further complicated because claimants have signed a declaration certifying that the information provided in the claim form is accurate to the best of their knowledge, meaning that assessors are not able to make changes to a claim without the consent of the claimant. Consequently, as part of the verification step, assessors:

- take a copy of the claim form so that potential changes can be noted on the copy, and not on the original;

¹⁰⁹ Centrelink estimated that approximately 80 per cent of claims were submitted with errors.

- attempt to contact the claimant by phone to discuss the changes and seek verbal authorisation from the claimant for the variations¹¹⁰;
- record the changes and the claimant's agreement in *Staff Online*; and
- prepare a separate 'Note to Claimant' itemising the changes, to be forwarded with the payment advice letter once the claim assessment has been finalised and approved for payment.

3.36 The claim form includes up to 17 fields that assessors are expected to verify against the supporting documents accompanying the claim form, against information previously provided by the claimant and kept on file, and through desktop research using the Internet. Further, if sufficient evidence is not provided, the assessors may contact claimants, freight companies and/or suppliers to verify the shipment information before the other assessment steps can be undertaken.¹¹¹

Guidance and supporting material

3.37 In addition to information relating directly to individual claimants' claims and businesses, Centrelink has a number of overarching guidance materials that are integral to supporting staff to effectively administer the Scheme and assess claims, including:

- the *Tasmanian Freight Equalisation Scheme Ministerial Directions of 2008 Guidelines* (November 2009)—providing information to assist in the application of the Ministerial Directions and to assess claims for assistance;
- the *Tasmanian Transport Programs Resource Guide*—providing a range of information to support TFES assessors' decision-making, including task cards detailing operational processes to administer TFES¹¹²;
- a policy advice database (*Rumina*)—containing a historical record of policy information from DIT; and

¹¹⁰ If a claimant cannot be contacted within a reasonable time, and the identified errors or follow-up issues are not major, a letter is sent to the claimant detailing the issues with the claim. Claimants are given 14 days to respond. If the response is not received within this time, Centrelink rejects the claim. The claimant can still claim for the goods shipped by resubmitting a new claim, provided that the claim is lodged within a two-year time limit.

¹¹¹ Claims submitted by self-assessed claimants are the only claims that assessors do not verify: as these claims are not submitted with supporting documentation, they are accepted without verification. The annual independent audit report that self-assessors must provide is the mechanism used by Centrelink to gain assurance on the accuracy of these claims. See Chapter 5 for an analysis of this mechanism.

¹¹² The task cards include Manufacturing and Mining Business Registration, Manufacturing and Mining New Item, Overpayments, Underpayments, and New Supplier – Primary Industries.

- the *TFES Operations Manual*—replaced by the Guidelines, and now only used for historical cases, the Manual provides a detailed outline of the responsibilities and procedures previously undertaken by Centrelink officers in administering TFES.

3.38 Assessors can also access a compilation of identified ‘high density’ goods¹¹³ to help them determine whether goods being claimed for should be classified as high density for the purposes of the Scheme, and to verify if a claimant has appropriately categorised a good as high density. This is an important support document, as goods that are identified as high density are only eligible to receive 60 per cent of the total assistance payable to non-high density goods.¹¹⁴

3.39 Finally, DIT plays an important support role in Centrelink’s assessment of claims. As the department with overall responsibility for the Scheme, DIT is Centrelink’s source for policy advice and for the clarification of individual policy issues.

Risks to claim accuracy

3.40 The provision of up-to-date and correct information is critical for Centrelink to conduct accurate assessments. The value of key parameters, such as the freight rate, the eligibility of the goods, and the identification of the transport task and the type of cargo (high density or not), directly affects the amount of assistance to be paid. Centrelink developed an approach to claims assessment focused on intensive up-front verification by assessors, and on reliance on information previously collected from claimants and kept on file.

3.41 In order to assess the effectiveness of this approach, the ANAO examined the influence of various parameters in calculations used to:

- assess the freight rate;
- determine a good’s eligibility;
- identify the transport task; and
- identify the type of cargo (high density or not).

¹¹³ Goods are defined as high density or heavy cargo when, efficiently packed, they have a stowage factor of 1.1 cubic metre or less per tonne.

¹¹⁴ *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme*, 2008, Clause 21.

3.42 The ANAO then analysed the risk attached to the use of out-of-date or incorrect parameters on the delivery of accurate assessments.

Importance of using up-to-date and accurate information when assessing claims

Freight rate assessment

3.43 For the southbound component of the Scheme, a number of suppliers provide claimants with invoices that do not distinguish the cost of the good from the cost of freight; rather, they indicate a 'free into store' price. In order for Centrelink to establish the cost of freight, which is used to calculate the amount of assistance, claimants must provide a letter from the supplier indicating the cost of the freight component. Claimants are only required to inform Centrelink of the freight rate the first time they apply to claim for a good. Centrelink stores this information on file in several locations.

3.44 For both northbound and southbound components, freight rates and claimants' arrangements with their suppliers or freight forwarders are likely to change over time. Therefore, maintaining databases that contain up-to-date freight rate information is essential to support the accurate calculation of claimants' TFES assistance.

Good eligibility determination

3.45 In addition to freight rates, Centrelink keeps information on file to help assess whether goods being claimed for are eligible for assistance under TFES. The information kept on file helps assessors to verify:

- for the southbound component, that the good has been produced or manufactured in Australia (and if imported, that the good has undergone a manufacturing process on mainland Australia); and
- for the northbound component, that the good is for permanent use or sale on mainland Australia (i.e. not for export overseas and not to be returned to Tasmania).

3.46 The information kept on file covers thousands of different goods, ranging from steel sheets and oxygen cylinders to milk powder and food colouring.

3.47 Determining eligibility against the origin and destination criteria is straightforward for some goods. For example, chilled fish shipped from Devonport to Melbourne is unlikely to be exported overseas, as the fish would have been shipped frozen if it was going to be exported after reaching the

mainland. Eligibility assessment is more complicated, however, for goods related to other industries. For example, sheep hides transported from Tasmania to Victoria may be eligible in one case (when those hides undergo a final manufacturing process on the mainland before being exported overseas); and not in another (when this final manufacturing process is conducted in Tasmania).

3.48 Similarly, for southbound claims, some goods (for instance, some steel and aluminium products) may contain parts that have been manufactured on mainland Australia, and/or parts that have been imported from overseas (and therefore are not eligible for TFES assistance). In these cases, only a percentage of the good is eligible for assistance, and the assessor must determine the quantity of the good that is eligible for an accurate assessment of assistance payable. Further, as in the case for freight rates, claimants' business arrangements change over time, and maintaining up-to-date information on eligible goods and identifying and recording changed circumstances is essential to conduct accurate claim assessments.

Transport task identification

3.49 The accurate identification of the transport task relies on claimants providing up-to-date and accurate information. Claimants must indicate on the claim form whether the freight was transported from the supplier's door to the claimant's door, between the shipping company's wharfs, or a combination of these transport tasks. As assistance is paid only for the wharf-to-wharf component of the journey, \$230 is deducted for freight costs including a wharf-to-door or door-to-wharf component, and \$460 is deducted for freight costs calculated on a door-to-door basis. Claimants must provide sufficient documentary evidence with their claims in order for Centrelink to accurately establish the transport task. Centrelink advised that if the claimant has not provided sufficient information, the assessor contacts the claimant or reviews the information retained on file to help establish the transport task.

3.50 An error in the transport task can have a significant effect on the level of assistance paid, increasing or decreasing the level of assistance by more than 50 per cent. For example, the maximum assistance that can be paid per full container load shipped is \$855. If the container load was claimed and assessed with a wharf-to-wharf transport task, but the actual transport circumstance was door-to-door, the claimant will be paid more than double the assistance eligible (for door-to-door, \$230 is deducted from the assistance payable for each component, resulting in an actual entitlement of \$395 instead of \$855).

Cargo type (high density) identification

3.51 The claim form includes a column in which the claimant must indicate whether the good transported is high density or not. Assistance payable for high density goods is lower than for other goods because volume is a more important factor when calculating the cost of sea freight than weight, which is a key determinant for the cost of road freight. Since goods identified as high density are eligible to receive 60 per cent of the total assistance paid for non-high density goods, the incorrect identification of the type of good can result in over- or underpayments.

Impact of using out-of-date and incorrect information on the delivery of accurate assessments

3.52 Centrelink relies on claimants to provide accurate information and to keep this information up to date.¹¹⁵ Centrelink requires the freight rate and product origin information when a claimant is first applying for a good to be approved. However, until August 2011, no expiry date for this information was set, and Centrelink relied on claimants to advise if, and when, circumstances had changed.¹¹⁶

3.53 Claimants must also sign a declaration certifying the origin and final destination of the goods on each claim form submitted. Updates are conducted periodically by assessors as they conduct claim assessments. However, Centrelink does not have a process to check that the information on the database is up to date. Further, Centrelink has not implemented measures to mitigate the impact of using incorrect or out-of-date information to calculate the amount of assistance payable.

3.54 A spot check conducted by the ANAO found a number instances when information on file about freight rates and product eligibility did not have a validity period stated, and had not been updated for several years.

¹¹⁵ There is an exception for bakery products. For this limited range of products, Centrelink/DHS conducts underlying research and undertakes a manual calculation annually to update the freight rates. Centrelink indicated that the rates for 2009 were still used in 2010 and 2011, because the new IT system introduced in 2009 did not allow the updating of the Scheme's rates. As at August 2011, a solution to this IT limitation was still being investigated by DHS.

¹¹⁶ The August 2011 Head Agreement indicates that freight rates must be confirmed and/or updated every 12 to 24 months. Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Schedule 3, Section 2. The Agreement does not include provision for the update of other types of information.

3.55 The risk generated by the use of out-of-date information was also documented in two previous consultant reports, commissioned by DIT in 2006 and in 2008. The reports identified that:

By using standard wharf-to-wharf rates that are stored on file, there is an increased risk that the rates used to calculate TFES assistance amounts do not reflect the actual shipping costs incurred by claimants.¹¹⁷

Rates and data on claimant's records are not updated or reviewed and with little or unreliable supporting evidence – claimants may get paid incorrectly or for ineligible shipments.¹¹⁸

3.56 The impact of using incorrect or out-of-date information for the assistance payment calculation is illustrated by the cases of Claimant A and Claimant B, two of TFES's largest claimants (Claimant A was the largest claimant in 2010–11).

¹¹⁷ KPMG, *Tasmanian Freight Equalisation Scheme (TFES) and Bass Strait Passenger Vehicle Equalisation Scheme (BSPVES), Phase 2*, 2006, p.5.

¹¹⁸ Ernst & Young, *Audit and Compliance Framework for the Reformed Tasmanian Freight Services, Stage 1*, 2008, p. 17

Case studies

Impact of using out-of-date or incorrect information to calculate assistance

Claimant A – Overpaid \$6.4 million over six years following the use of out-of-date information

In 2009, Claimant A advised DIT that it had identified that incorrect claims had been submitted to Centrelink. Following investigation of the claims submitted over the previous six years, Centrelink and DIT established that the claimant had been overpaid by \$6.4 million. Overpayments had arisen from claims applying for goods transported on a 'wharf-to-wharf' basis instead of a 'door-to-door' basis. As the documentation submitted by the claimant with each claim was not sufficient to identify the transport task, Centrelink, relying on the claimant to provide accurate information and keep this information up to date, used information kept on file. This information did not reflect that the transport task for the goods being shipped had changed.

Centrelink's regular business assurance processes (including quality assurance checks) did not detect, over the six-year period, that the assessments for Claimant A were not accurate and did not reflect the most current transport circumstances of the goods claimed. Centrelink had assessed claims worth a total of \$12.5 million using incorrect information, which resulted in an overpayment of approximately 50 per cent of the total amount of assistance paid.

DIT and Claimant A agreed that \$5.2 million of the \$6.4 million would be recovered, corresponding to overpayments incurred over the five most recent years.

Claimant B – Underpaid \$393 000 in 2009–10 following the use of incorrect information

Claimant B used an old version of a Centrelink spreadsheet to upload its claim information on TBUS (TFES' electronic lodgment facility), which has different field positions and headings to the newer version. As a result, a number of claims were submitted incorrectly indicating the cargo as being high density, and the claims were paid at 60 per cent of their correct value. As in the case of Claimant A, Centrelink's business assurance processes, in particular the upfront verification of the claims forms by assessors, did not identify the error.

In 2010, DIT conducted a data integrity check of the TFES database for 2009–10 and identified that a number of claims for high density goods had been assessed incorrectly, resulting in a number of over- or underpayments. Claimant B was the most affected of these claimants, incurring an underpayment of \$393 000. Centrelink has since adjusted the incorrect payments identified by DIT.

Source: ANAO analysis.

3.57 As previously noted (see paragraph 3.40), Centrelink's approach to assessing TFES claims focused on processes that involve extensive manual upfront checks and verification of claim and claimant information. Almost all claims are captured within this time and resource-intensive process, which relies heavily on the experience of assessors, and on the claimants' vigilance. Assessors are expected to conduct thorough verifications of claimant information, and claimants are expected to provide correct information, inform Centrelink of changes to circumstances and identify and report potential errors to Centrelink. Based on Centrelink's estimate¹¹⁹, and on the ANAO's

¹¹⁹ Centrelink indicated that an estimated 80 per cent of claims were submitted with errors.

observation of the claim assessment process, the high number of claims received that contain errors or require follow-up with claimants or other relevant parties is likely to further impact on the level of resources dedicated to assessing claims.

3.58 However, while the effectiveness of the resource- and time-intensive approach adopted by Centrelink (now DHS) to assess TFES claims have relied heavily on the correctness of the information kept on file, there is no systematic process in place to capture, in a timely manner, changes to the circumstances of shipments claimed, including freight rates, product eligibility and transport tasks. Out-of-date or incorrect claimant information stored on file has a direct impact on the accuracy of claim assessments and the amount of assistance payable.

3.59 The August 2011 Head Agreement between DHS and DIT indicates that ‘freight rates held on record [are] to be confirmed and/or updated every twelve or 24 months’.¹²⁰ While this measure has the potential to mitigate the risk of using out-of-date freight information, in the absence of an implementation plan, any anticipated benefits may not be realised in a timely fashion. Further, the measure only partially addresses the issue of using out-of-date or incorrect information to calculate assistance to be paid, as it only relates to freight information, and not to other goods and businesses information also used to assess the value of assistance payable.

Recommendation No.1

3.60 In order to reduce the risk of incorrect payments, the ANAO recommends that DHS, in consultation with DIT, identifies data about goods and businesses that could substantially affect TFES payment accuracy, and establishes arrangements to review and update this information in a more timely manner.

Departments’ responses: Agreed

¹²⁰ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Schedule 3, Section 2.

4. Calculating and Paying Assistance

This chapter discusses the extent to which the calculation methods used to determine TFES assistance payments are consistent with the policy parameters established in the Ministerial Directions, assistance payments are correctly calculated, and Centrelink¹²¹ has implemented effective processes to identify and monitor potential incorrect payments.

Introduction

4.1 Agencies providing financial assistance to citizens and businesses must comply with a range of financial management requirements designed to ensure that such payments are accurate. There is an expectation by citizens and by the Australian Government that agencies will put in place such processes as are necessary to safeguard the expenditure of public monies. Incorrect payments create a burden for agencies and for recipients through the conduct of recovery actions and reviews and appeals, and if sufficiently frequent or large, can erode public confidence in a program or an agency.

4.2 The Ministerial Directions of 2008 Guidelines state that Centrelink's responsibility, in relation to payments, was to:

...ensure that the correct amount of assistance is paid to claimants and the recovery of any payment progressed in accordance with relevant guidelines.¹²²

4.3 While the responsibility for the calculation of accurate payments rests with Centrelink, DIT remains accountable for the program. This includes overseeing Centrelink's delivery of the Scheme and managing TFES in a manner consistent with good governance and the requirements and expectations of the Australian Government.

4.4 In light of the shortcoming in the assessment process identified in Chapter 3, and in order to form an opinion on the overall accuracy of TFES payments, the ANAO examined Centrelink's payment calculation processes and assessed whether:

¹²¹ In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.

¹²² Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme Ministerial Directions of 2008 Guidelines*, November 2009, p. 6.

- Centrelink implemented effective processes to monitor payment accuracy, and to identify and monitor potential incorrect payments;
- the calculation methods used to determine TFES payments were consistent with the formula and parameters included in the Ministerial Directions¹²³; and
- the controls to gain confidence that assistance is correctly paid to the claimants were effective.

Payments calculation processes

Assistance calculation

4.5 Centrelink uses the electronic system *Staff Online* to record and calculate TFES payments. The information provided by claimants to support their claims is recorded in *Staff Online*, and the amount of assistance is calculated by the system.

4.6 The calculation of TFES payments is determined by a set of parameters described in the Ministerial Directions (see Appendix 3 for a detailed presentation of TFES payment calculation). Although these parameters have been the subject of a series of reviews assessing the extent to which the level of assistance received reflects contemporary market rates and road freight benchmarks, the parameters currently used have not been amended since 1998 (Table 4.1).¹²⁴

¹²³ Department of Infrastructure and Transport, *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme*, July 2008, available from <<http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/scheme.aspx>> [accessed 18 April 2011].

¹²⁴ As noted in Chapter 1, the Scheme's parameters have been reviewed eight times since 1998.

Table 4.1**Key parameters for TFES assistance calculation**

TFES key parameters for assistance calculation	
The key parameters at the basis of the calculation of the assistance delivered under TFES are:	
•	road freight equivalent cost (in the case of goods moved between mainland Australia and Tasmania, the cost is \$281 per standard container for dry freight) ¹²⁵ ;
•	median wharf-to-wharf freight cost disadvantage (\$671);
•	door-to-door adjustment (\$230 per segment) ¹²⁶ ;
•	fixed intermodal cost (\$100); and
•	route scaling factor adjustment. ¹²⁷
Additionally, payments are further adjusted if the goods are:	
•	transported by 'reefer' (refrigerated container) ¹²⁸ ; or
•	defined as being 'high density'; or
•	do not utilise a full standard container (6.1 metres).

Source: ANAO analysis.

Assistance payment

4.7 Once the claims have been verified and the amount of assistance payable assessed, a Centrelink officer with financial delegation checks batches of claims to verify that the payment amounts and the claimants' identity as recorded on *Staff Online* are consistent with the information on the paper claims. The payment information is then transferred to the payment system, *Infolink*, and payments are authorised by batches. A last check is conducted by the same officer to ensure that the total amount of assistance calculated for a batch by *Staff Online* is consistent with the amount that appears on *Infolink*. From *Infolink*, the payment information is transferred successively to Centrelink's Treasury, DIT and the individual claimants' bank accounts.

¹²⁵ The rate is different for goods moved between mainland Australia and either King Island or Flinders Island.

¹²⁶ Assistance is only paid for the wharf-to-wharf section of a journey.

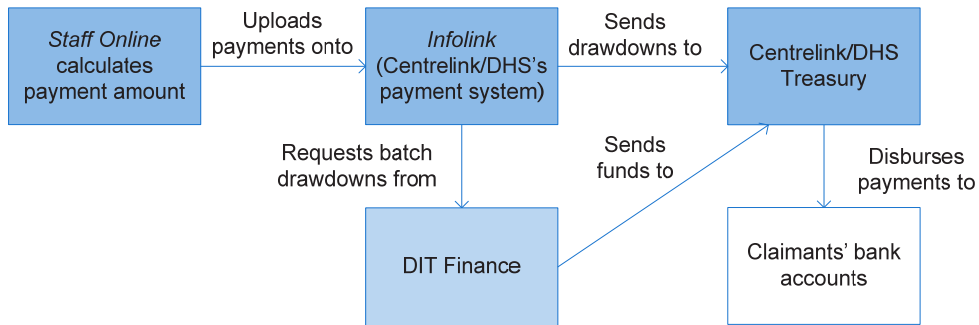
¹²⁷ Assistance is provided only for the sea journey between Northern Tasmania and Victoria. For journeys with different ports of departure or arrival (e.g. between Southern Tasmania and Queensland), a conversion is undertaken by applying the approximate scaling factor to the actual route undertaken. The scaling factor varies between 1.3 (Southern Tasmania) and 6.8 (Northern Territory).

¹²⁸ Assistance payable is higher for refrigerated goods because the cost of road freight is higher for these goods than for dry goods. For instance, 'reefer' goods transported between Australia and Tasmania will attract a road freight equivalent of \$309 per standard container, instead of \$281 for dry goods.

4.8 Verifications are performed by Centrelink and DIT at several steps of the process. Figure 4.1 illustrates the different stages and verifications that TFES payments undergo before reaching the claimants' bank accounts.

Figure 4.1

TFES payments processes



Source: ANAO analysis.

Management of payment accuracy

4.9 Agencies providing assistance aim to calculate and pay accurate amounts to eligible claimants. However, given the risk that administrative or customer errors could occur, it is important for agencies to develop and implement effective controls to minimise such errors and detect inaccurate payments. In addition to implementing measures to keep pre-payment errors to a minimum (including quality assurance activities), agencies must also develop risk-based post-payment administrative processes to monitor and report on payment accuracy, and to detect and recover incorrect payments. The ANAO examined the processes implemented by Centrelink to manage payment accuracy, and, in order to assess the level of incorrect payments (over-, under-, and duplicate payments), analysed *Staff Online* data for the years 2009–10 and 2010–11.

Quality assurance activities

4.10 A quality assurance (QA) system supports Centrelink's assessment of claims before those claims are accepted for payment. Centrelink advised that *Staff Online* randomly selects 10 per cent of 'accepted' claims each day to undergo a quality assurance check. This task is undertaken by an officer experienced in processing TFES claims ('senior practitioner').

4.11 Centrelink has not developed a checklist for the senior practitioner to follow when performing the task. The agency advised that the check involves a reassessment of the claim, with particular attention paid to checking:

- claim line data that has been changed as a result of follow-up with the claimant;
- that the origin and destination of the goods shipped under the northbound component are correct (i.e. they are not for export overseas or import back to Tasmania) and, for the southbound component, that the goods are going to the eligible customer;
- whether the claim form is correctly completed; and
- whether the correct claim assessment procedure has been followed by the assessor.

4.12 A higher rate of quality assurance (100 per cent of claims processed) is implemented for new assessors until they have reached the level of proficiency expected by the Tasmanian Transport Programs team leaders, which takes between four and six months.

4.13 The QA results have been recorded in several different spreadsheets or databases over time. Since November 2010, errors are categorised as 'critical' or 'non critical' and results are recorded in a stand-alone database. Centrelink advised that critical errors are those with the potential to have a material impact on the assistance calculation and the assistance paid to the claimant. For example, a critical error could be that the volume of the shipment is incorrectly recorded on *Staff Online*. Once all corrections are made and the QA check is passed, the claim is approved for payment.

4.14 In order to improve the existing quality assurance process, there is scope for Centrelink (now DHS) to develop documented QA procedures that facilitate a more streamlined and consistent approach to QA activities. Further, while QA results are used to manage staff performance, Centrelink should also analyse and report on collective QA results in order to inform business and management decisions relating to the administration of the Scheme.

Recommendation No.2

4.15 To strengthen TFES quality assurance activities, the ANAO recommends that:

- DHS develops documented procedures to improve the consistency of the approach to quality assurance; and
- DIT and DHS analyse and report quality assurance results to inform business and management decisions relating to the administration of the Scheme.

Departments' responses: Agreed

4.16 The ANAO analysed the individual QA results recorded by Centrelink between 1 November 2010 and 31 May 2011 to assess the proportion of errors among experienced assessors.¹²⁹ Table 4.2 presents the results of this analysis.

Table 4.2

Errors identified by the ANAO in QA results, 1 November 2010 to 31 May 2011

	Claims	
	No. claims	Percentage
Claims selected for QA	260	100% (of sample)
Errors – total	49	19%
• Critical errors	36	14%
• Non-critical errors	13	5%

Source: ANAO analysis.

4.17 During the seven-month period, 260 claims were submitted for QA. Nineteen per cent contained at least one error and the majority of these errors were critical, affecting 14 per cent of all claims submitted for QA. Extending this result to all assessed claims, the QA indicates that between 9 and 19 per cent¹³⁰ of all TFES claims may contain a critical error, with the potential to have a material impact on the assistance calculation and the

¹²⁹ Experienced assessors have 10 per cent of their claim assessments submitted to QA. The ANAO's sample did not include results from other assessors on 100 per cent QA, as all errors from claims assessed by this group are identified and corrected before payment.

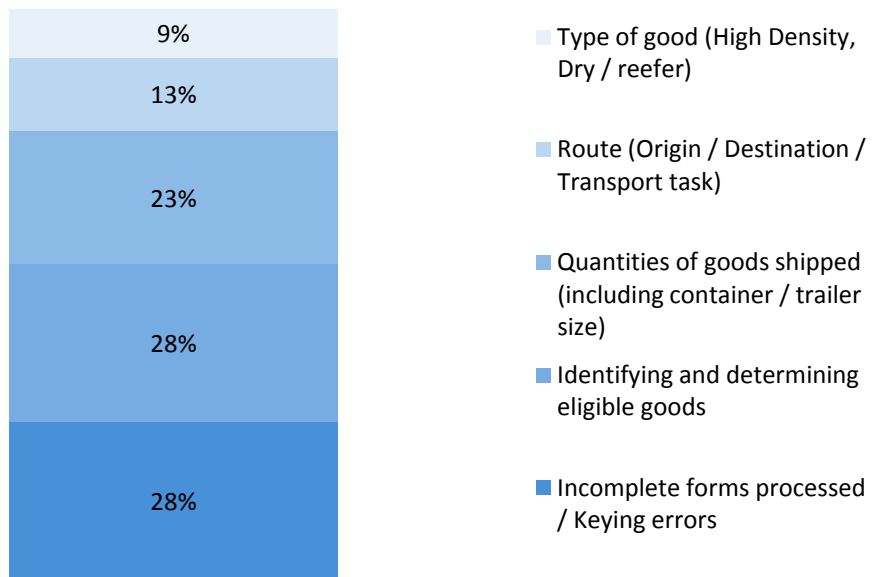
¹³⁰ With a total number of claims for the seven-month period of 5398 and with a 90 per cent confidence level, the confidence interval is +/- five per cent. This means that there is 90 per cent confidence that the population will not deviate from the tested sample by more than five per cent.

assistance paid to the claimant. This figure provides a further indication that, as discussed in Chapter 3¹³¹, Centrelink's approach to claims assessment is not sufficient to mitigate the risk of assessment inaccuracy.

4.18 Using the QA officers' notes, the ANAO further analysed the types of critical errors. The most common errors related to the processing of incomplete claim forms, assessors' keying errors, and assessors incorrectly assessing goods eligibility (Figure 4.2).

Figure 4.2

QA critical error types



Source: ANAO analysis.

Detection of incorrect payments and compliance

4.19 Centrelink relies on two mechanisms to detect incorrect payments:

- the assessors' and claimants' vigilance; and
- compliance reviews.

¹³¹ See paragraph 3.58.

4.20 As individual assessors' performance is measured primarily by the number of accurate assessments, and as this measurement does not formally recognise activities relating to the detection of inaccurate payments, assessors do not have clear incentives to search for and rectify payment errors. While Centrelink also relies on claimants' care and honesty to identify errors of assessment and payments, claimants are not necessarily in a strong position to identify and report errors: the ANAO's survey of claimants identified that, while most understood the Scheme's eligibility rules, only 27 per cent of respondents agreed that understanding how TFES payments are calculated is easy, while 40 per cent thought that those calculations were difficult to understand.

4.21 In administering its responsibilities to identify incorrect payments, Centrelink had implemented a range of measures, including:

- a compliance review of a sample of the claims paid to agents;
- the requirement that self-assessors submit an independent audit report;
- letters sent to a selection of claimants requesting that they declare events that could retrospectively affect the level of assistance paid; and
- the review, post-payment, of the eligibility of a limited number of goods or businesses.

4.22 Figure 4.3 provides an overview of these activities, while the subsequent paragraphs analyse in more detail their impact and effectiveness on the mitigation of the risk of incorrect payments.

Figure 4.3**Centrelink activities aimed at identifying incorrect payments**

Activities	Main features	Scope and coverage
Agent Compliance Review	<ul style="list-style-type: none"> • Every year, random selection of 5 shipments in 5 different claims • Reassessment of these 5 shipments 	<ul style="list-style-type: none"> • Only direct compliance activity • Represents only 2% of claimants and 6% of assistance paid • Methodology does not provide sufficient coverage of agents presenting highest financial risk
Self-assessors Audit Reports	<ul style="list-style-type: none"> • Annual submission by claimants of an independent audit report certifying correctness of claims 	<ul style="list-style-type: none"> • Self-assessors audit reports represented 9 claimants and approx. 30% of assistance paid in 2010–11 • However, this process failed to identify one instance of incorrect claim submission that generated \$640 000 overpayments
Subsidies, Rebates and Discounts Review	<ul style="list-style-type: none"> • Annual Centrelink letter to all claimants who received \$200 000 or more in assistance • Letter requests that these claimants declare any subsidies, rebates or discounts that could affect the amount of assistance received • If yes, Centrelink adjusts payments and raises a debt 	<ul style="list-style-type: none"> • Relies on claimants self-declaration • Some inherent limitations on level of assurance on compliance
Exports and Returns Review	<ul style="list-style-type: none"> • Annual Centrelink letter to all claimants who received \$300 000 or more in assistance • Letter requests that these claimants declare whether any goods for which they have received assistance were exported or returned to Tasmania • If yes, Centrelink adjusts payments and raises a debt 	<ul style="list-style-type: none"> • Relies on claimants self-declaration • Some inherent limitations on level of assurance on compliance
Other Ad-hoc Reviews	<ul style="list-style-type: none"> • Post-payment eligibility checks of selective goods and businesses • Conducted in reaction of specific assessment issues 	<ul style="list-style-type: none"> • Reactive • Limited in scope and coverage of Scheme's financial risk

Source: ANAO analysis.

Agent compliance reviews

4.23 Companies that supply goods to eligible claimants in the agriculture, forestry or fishing industries are able to be appointed as agents and submit claims on behalf of eligible claimants.¹³² In 2010–11, there were 24 approved

¹³² Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme—Ministerial Directions*, September 2009, Clause 7.

agents, representing less than two per cent of all claimants and six per cent of the total assistance paid through TFES that year.

4.24 Centrelink conducts an annual compliance review consisting of a random selection of five shipments in five different claims submitted by each agent in the previous year. A complete reassessment of each shipment was conducted, with a particular emphasis given to the agents' compliance with the requirement to pass onto their customers the full amount of assistance paid.

4.25 The ANAO reviewed 22 of the 26 most recent agent compliance reviews conducted for the year 2009–10.¹³³ The reviews had been completed in a timely manner, with a detailed record of issues identified. Issues were identified in 11 of the 22 reviews and, in three of these reviews, the issues had a financial impact (agent made assessment errors resulting in over- or underpayments; agent had not passed the assistance received in full to the client; agent claimed assistance on behalf of an ineligible customer). For each of the issues identified, appropriate follow-up action had been taken, including raising a debt and educating the agent about the correct way to lodge a claim.

4.26 However, the decision to sample, for each agent, five shipments in five different claims does not reflect the agents' claiming profiles (that is, the number of claims made by each agent and the value of those claims). The ANAO examined the claims paid to 17 of the 24 agents in 2010–11¹³⁴, and identified that the assistance paid, the number of claims and the number of shipments varied considerably between agents (Table 4.3). Centrelink's sampling represented 100 per cent of the claims for some claimants (such as Agents 16 or 17), but only a fraction of the claims of others (such as Agents 1, 2 or 3). In order to increase the level of assurance gained through the agent compliance reviews, there would be benefit in Centrelink improving its sampling methodology with a view to better representing the agents receiving the highest level of assistance.

¹³³ There were 26 agents in 2009–10.

¹³⁴ The other seven agents did not submit claims in 2010–11.

Table 4.3**Assistance paid, number of claims and shipments submitted for TFES assistance by agents, 2010–11**

Agent	Total assistance paid	Number of claims	Number of shipments
1	\$ 1 388 352	33	1644
2	\$ 1 121 138	55	1343
3	\$ 1 120 242	13	1466
4	\$ 764 199	45	407
5	\$ 516 915	64	612
6	\$ 319 554	18	384
7	\$ 178 973	9	272
8	\$ 137 905	31	104
9	\$ 87 228	8	8
10	\$ 68 229	11	133
11	\$ 40 051	18	40
12	\$ 35 068	11	29
13	\$ 30 395	15	39
14	\$ 14 364	10	28
15	\$ 11 970	2	14
16	\$ 4 642	5	5
17	\$ 85	1	1

Source: ANAO analysis

Self-assessors audit reports

4.27 As discussed in Chapter 3, claimants identified by Centrelink as having a history of compliance with TFES claiming criteria, accuracy of claims and sound management practices are invited to be ‘self-assessed’. Self-assessed claimants do not need to submit supporting documentary evidence with their claims. They are, however, required to submit an annual independent audit report certifying that the claims submitted to Centrelink during the previous year were correct.

4.28 The self-assessor audit reports address 10 criteria relating to accurate recordkeeping, goods eligibility, payments of freight costs incurred, unique submission of invoices and submission of information in case of changes of circumstances. Centrelink does not report specifically on the outcome of the self-assessor audit reports, but keeps a summary document outlining

follow-up actions and audit outcomes. Centrelink provides DIT with the audit reports and Centrelink's recommendations for action.

4.29 In 2010–11, there were nine self-assessed claimants, representing 30 per cent of the assistance paid that year. The ANAO examined the most recent audit reports available at March 2011. All nine independent audit reports reported that the self-assessors were compliant across all the criteria.¹³⁵

4.30 The ANAO's analysis of the TFES database indicated that one self-assessor (Claimant C), during the period covered by that claimant's two most recent audit certificates (2008–09 and 2009–10), lodged 27 erroneous claims that had generated overpayments totalling just under \$640 000. These errors had not been identified in the audit reports. In particular, the largest overpayment during this period occurred because the claimant had submitted the same invoice several times.¹³⁶ Although duplicate submission of invoices is one of the criteria examined by the independent auditor, this error had not been identified, and the auditor had certified that the claims submitted were compliant with the criteria. Centrelink indicated that steps were undertaken to recover the overpayments, and also that the process to revoke this claimant's self-assessor status was initiated, in consultation with DIT, in August 2011.

Subsidies, rebates and discounts review

4.31 A claimant who has received assistance under the Scheme must, when required by Centrelink, submit a statutory declaration relating to any subsidies, rebates or discounts received in respect of shipping costs that have been the subject of assistance. If subsidies, rebates or discounts have been received, the amount of assistance must be recalculated and any overpayment must be repaid to Centrelink.¹³⁷ Centrelink sends a letter annually to all claimants who had received \$200 000 or more in assistance in the previous year (between 40 and 50 claimants), requesting that those claimants declare any

¹³⁵ One audit report, however, did not itemise compliance for each of the criteria for the two previous years. Centrelink requested that future reports be itemised.

¹³⁶ This claimant incurred an additional \$686 169 overpayment for similar reasons, outside the period covered by the two audit certificates available. See more details on overpayments later in this chapter.

¹³⁷ Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme—Ministerial Directions*, September 2009, Clause 24.

subsidies, rebates or discounts.¹³⁸ A report of the results of the review was provided annually to DIT.

4.32 The ANAO examined the reports for 2007–08 to 2009–10. Each year, only one or two claimants indicated that they had received subsidies, rebates or discounts. Centrelink had undertaken relevant follow-up actions, including calculating the amount of adjustments and arranging for repayments to take place.

Exports and returns review

4.33 TFES provides assistance to claimants for goods that are for permanent use or sale on mainland Australia. Consequently, goods that return to Tasmania to be consumed locally and goods that are exported from the mainland to overseas markets are not covered by TFES. Claimants are not always aware of the final destination of their goods at the time of claim submission. For instance, a business may request assistance for 10 containers of confectionery shipped from Tasmania to Melbourne, and be informed later that two of these containers were exported to Asia and one was returned to Tasmania for local consumption. In these circumstances, returned and exported goods become non-eligible for TFES assistance and claimants must inform Centrelink of these 'exports' and 'returns'.¹³⁹

4.34 Claimants that export goods out of Australia or have some of their goods returned to Tasmania from mainland Australia are required to exclude these goods from claims. When claimants become aware of the final destination of their goods only after the claims have been submitted, they are required to inform Centrelink as soon as possible so that adjustments can be made to payments of assistance.¹⁴⁰ The Guidelines to the Ministerial Directions indicate that:

Responsibility rests with the claimant to advise accurate data to Centrelink when submitting a claim. If circumstances occur after claim lodgement which

¹³⁸ The selection of claimants receiving \$200 000 or more assistance screening was agreed to by DIT (then the Department of Transport and Regional Services, DOTARS) in December 2002 and was based on the analysis that claimants receiving less than this amount in assistance were unlikely to have the bargaining power to negotiate for freight subsidies, rebates and discounts.

¹³⁹ *Ministerial Directions for the operation of the Tasmanian Freight Equalisation Scheme*, 2008, Sub clauses 4.4, 4.5 and 24.3.

¹⁴⁰ Department of Infrastructure and Transport, *Tasmanian Freight Equalisation Scheme—Ministerial Directions*, September 2009, Clause 4.

affect the claim data, the claimant is also responsible for advising Centrelink of any such circumstances.¹⁴¹

4.35 Every year, Centrelink sends out a questionnaire to major claimants (those who have received assistance greater than \$300 000)¹⁴² to advise whether the goods for which they had received assistance went directly overseas to export markets without an intermediary step, or were returned to Tasmania. Centrelink provides DIT with a report on the amount of export and returns for these businesses.

4.36 The ANAO examined the reports for 2007–08 to 2009–10. The reports identified that the same four or five companies each year had notified Centrelink of export and return activities in response to Centrelink’s questionnaire.¹⁴³

Other payment accuracy activities

4.37 Centrelink indicated that ad-hoc compliance reviews were carried out in response to specific issues emerging from the assessment process. Since 2008, Centrelink advised that seven reviews of complex business and goods eligibility cases have been conducted. Centrelink also conducted a specific review of the legitimacy of the evidence provided by one specific claimant.¹⁴⁴ Finally, following the identification by DIT of a number of inconsistencies in the classification of high density goods and the amount of assistance paid to claimants, Centrelink reviewed the assessment of the relevant claims and conducted the necessary adjustments.¹⁴⁵

Effectiveness of Centrelink’s activities aimed at detecting incorrect payments

4.38 While numerous, the activities conducted by Centrelink to detect incorrect TFES payments are limited in scope and only cover a small proportion of the claimants and of the value of the Scheme:

- The agent compliance reviews are the only direct compliance activity conducted by Centrelink. However, in 2010–11, the reviews covered just two per cent of claimants and six per cent of assistance paid that

¹⁴¹ Department of Infrastructure and Transport, *Guidelines to the Ministerial Directions of 2008*, November 2009, p. 55.

¹⁴² The ANAO identified that 49 companies received more than \$300 000 in 2009–10.

¹⁴³ The total amount of export and return activities were \$699 777 for 2007–08, \$591 193 for 2008–09 and \$774 269 for 2009–10.

¹⁴⁴ Subsequent to this review, DHS is in the process of investigating a potential case of fraud.

¹⁴⁵ See Case Study, Claimant B, in Chapter 3 (p. 87) for more details on this ad-hoc high density check.

year. Further, the methodology used to check agents' compliance is not commensurate to the financial risk they represent.

- The self-assessors audit reports for 2010–11 covered 30 per cent of value of the assistance paid through the Scheme that year; however, given that this assurance process failed to identify the repeated and significant errors of one of the nine self-assessors, it cannot be considered to be fully effective in providing adequate assurance of compliance.
- Two of the activities identified by Centrelink and DIT as compliance activities – the subsidies, rebates and discount review, and the exports and returns review – are better defined as reports on claimants' self-declarations. These declarations have some inherent limitations with respect to the level of assurance they provide on compliance.

Recording, monitoring and reporting of incorrect payments

'Legitimate' and 'true' overpayments

4.39 Centrelink established a distinction between 'legitimate' and 'true' overpayments. 'True' overpayments are the result of administrative error or inaccurate claim submission. 'Legitimate' overpayments correspond to payments that were calculated on the basis of information (provided by the claimant) that was correct at the time of claim submission, but that had to be adjusted later, after additional information had become available to the claimant. 'Legitimate' overpayments occur in two circumstances: returned or exported goods; and goods to which a subsidy, rebate or discount has been applied.

Recording processes

4.40 Centrelink uses *Staff Online* to record over- and underpayments that have been detected by staff or claimants. However, Centrelink does not adopt consistent practices to recording the reasons for and source of the incorrect payments. There are no prepopulated fields for reasons of over- and underpayments (such as exports and returns). Instead, the reasons are recorded in *Staff Online* as free text. When analysing the database, the ANAO found that:

- for all incorrect payments, the source of the incorrect payments (administrative or claimant error) was not recorded, nor was the party (claimants or Centrelink officers) responsible for identifying incorrect payments;

- for overpayments, reasons were not recorded in a consistent manner and, importantly, did not unequivocally identify 'legitimate' from 'true' overpayments; and
- for underpayments, reasons were not recorded at all.

Monitoring and reporting of payment accuracy

4.41 Data integrity checks allow the identification and analysis of anomalies in data recording and, used in association with quality assurance and compliance activities, contribute to the accountable financial management of a program. Centrelink does not run routine integrity checks on *Staff Online*, for instance, to identify potential duplicate payments.¹⁴⁶

4.42 Although incorrect payments are individually recorded and adjusted once they have been identified, Centrelink did not report on incorrect payments prior to August 2011¹⁴⁷, and does not systematically monitor trends relating to the type of errors leading to incorrect payments. Consequently, Centrelink is unable to identify systemic issues and capture potential lessons or better practice that could be implemented more broadly to support business improvement.

Analysis of incorrect payments

4.43 As noted in the sections above, Centrelink does not analyse or report on incorrect payments. Table 4.4 presents the results of the ANAO analysis for 2009–10 and 2010–11, with the value of overpayments, underpayments and duplicate payments for each year.

¹⁴⁶ The agencies indicated that the project specifications for the new IT system *Staff Online*, in use since 2009, included a series of integrity checks to be run on a regular basis. However, these checks have not been implemented.

¹⁴⁷ The August 2011 Head Agreement between DHS and DIT lists 'overpayment and underpayment details' as one of the QA KPIs that must be part of the quarterly report to the DHS-DIT management group. Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Protocol 2, Section 3.

Table 4.4**Identified incorrect payments, 2009–10 and 2010–11**

	Value	% total assistance paid	No. claims/ shipments	No. claimants
2009–10				
Overpayments	\$1 095 270	1.2%	107	30
excluding 'legitimate' payments	\$860 418	0.9%	70	27
Underpayments	\$299 954	0.3%	66	28
Duplicate payments	\$93 151	0.1%	469	70
2010–11				
Overpayments	\$1 591 680	1.6%	85	36
excluding 'legitimate' payments	\$819 449	0.8%	59	32
Underpayments	\$540 789	0.5%	71	36
Duplicate payments	\$72 635	0.1%	193	49

Source: ANAO analysis.

4.44 While the number and value of identified incorrect payments for 2009–10 and 2010–11 remained at modest levels (less than two per cent of total assistance paid annually), the processes used by Centrelink to manage payment accuracy were unlikely to reflect the actual level of incorrect payments. Due to the shortcoming in the data management and detection mechanisms discussed in this chapter, there is a risk that the number and amount of incorrect payments identified by the ANAO in *Staff Online* are an underestimation of the incorrect payments actually occurring.

Overpayments and underpayments

4.45 Once identified, TFES assistance that has been paid incorrectly is repayable to the Commonwealth, either by adjusting subsequent claims, or by direct payment.¹⁴⁸ All the over- and underpayments recorded on *Staff Online* had been recovered or adjusted by Centrelink.

4.46 For the years 2009–10 and 2010–11 combined, almost \$2.7 million in overpayments were identified and recovered by Centrelink. In order to assess

¹⁴⁸ *Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme*, 2008, Sub clauses 15.5.

the value of 'true' overpayments, the ANAO removed those payments that were the result of export, return or rebate activities (and which could be identified from the free text provided to explain the overpayment). This reduced the amount of 'true' overpayments to \$1.7 million.

4.47 Over that two year period, 55 different claimants¹⁴⁹ generated the overpayments across 129 claims. Eighty per cent of the estimated 'true' overpayments were incurred by one claimant (Claimant C), who accrued a debt of over \$1.3 million.

4.48 Between July 2009 and June 2011, \$0.8 million in underpayments were generated by 55 different claimants¹⁵⁰ across 137 claims. All claims had been reassessed and adjustments had been made to the claimants' accounts. Eight businesses received underpayments of \$10 000 or more, accounting for 87 per cent of all underpayments.

Duplicate payments

4.49 Incorrect payments can be generated if the same invoice is submitted twice, or processed and paid twice. While *Staff Online* produces an alert on the screen when an invoice number has already been recorded, the assessor retains the discretion to override the alert.¹⁵¹

4.50 In order to identify potential duplicate payments, the ANAO conducted a data integrity test on *Staff Online* data, and extracted shipments with identical characteristics but different claim numbers and shipment dates.¹⁵² For the period between July 2009 and June 2011, 662 shipments (for 108 different claimants¹⁵³) were identified as potentially having been submitted on duplicate invoices and therefore, possibly having received TFES assistance twice or more. If confirmed, this would correspond to \$165 800 in overpayments.

¹⁴⁹ This number differs from the number presented in Table 4.4 (66 overpaid claimants for the two years), because 11 claimants were overpaid repeatedly in each year.

¹⁵⁰ This number differs from the number presented in Table 4.4 (64 underpaid claimants for the two years), because nine claimants were underpaid repeatedly in each year.

¹⁵¹ Some duplicate invoice numbers may be legitimate. For example, one invoice can contain multiple shipments (and generate multiple payment lines for the same claim). In this case it will be correct to pay different shipments against the same invoice number.

¹⁵² The test extracted shipments with different claim IDs and shipment dates, and identical: business ID; invoice number; amount of good shipped (weight, volume and/or livestock count); and amount of freight and assistance paid.

¹⁵³ This number differs from the number presented in Table 4.4 (119 claimants with duplicate payments for the two years), because 11 claimants submitted duplicate payments repeatedly in each year.

4.51 The ANAO provided a sample of potential duplicates to Centrelink in March 2011. Centrelink confirmed that, for this sample, invoices had been submitted and paid twice, and advised that these errors were due to a breakdown in the procedure that requires assessors to check that the invoice has not already been processed each time a 'duplicate invoice alert' is generated by *Staff Online*. Centrelink indicated that assessors had been reminded to apply the correct procedure verbally and by email.

4.52 In November 2011, Centrelink was still conducting work to retrieve the data required to allow a duplicate data integrity check on *Staff Online* and identify any other potential duplicates.

Effectiveness of Centrelink's management of payment accuracy

4.53 Centrelink's processes to manage payment accuracy do not provide sufficient assurance that potential incorrect payments are reliably and consistently identified and monitored. In particular:

- while the QA results indicate that between nine and 19 per cent of claims may contain an error that could have an impact the amount of assistance paid, Centrelink does not analyse or use these results to inform business management decisions;
- the activities conducted by Centrelink to detect incorrect payments do not provide enough confidence that all substantial incorrect payments are identified: for instance, the activities were unsuccessful in identifying overpayments of \$6.4 million over 6 years (Claimant A); underpayments of almost \$400 000 in 2009–10 (Claimant B); and overpayments of \$640 000 over 2008–09 and 2009–10 (Claimant C);
- Centrelink does not always implement effective IT data entry and data management rules, does not conduct routine data integrity checks, and, until August 2011, did not monitor or report on incorrect payments.

4.54 While the number and value of identified incorrect payments for 2009–10 and 2010–11 remained at modest levels (less than two per cent of total assistance paid annually), tightening the review and compliance processes would help Centrelink (now DHS) improve its confidence in the integrity of payments made under TFES.

Recommendation No.3

4.55 In order to gain a higher level of confidence in the integrity of the payments made under TFES, the ANAO recommends that DHS, in consultation with DIT:

- applies more effective data entry and management rules, and conducts appropriate data integrity tests on *Staff Online* data; and
- analyses the data integrity tests results, and reports on the outcomes of this analysis as part of the reporting arrangements specified in the 2011 DHS-DIT Head Agreement.

Departments' responses: Agreed

Accuracy of calculation methods

4.56 While payment errors can occur in automated systems, manual processing presents the additional risk of data entry and human error. Since March 2009¹⁵⁴, all TFES calculations are automatic, based on the parameters built into *Staff Online*. These parameters include the rates outlined in the Ministerial Directions. The parameters also include conversion tables that determine, for instance, the equivalence between a standard 6.1 metre container (on which the assistance calculation is based) and other types of transport units such as pallets, trailers or heads of livestock. Conversion tables also calculate whether a good is high density, based on its volume and weight.¹⁵⁵

4.57 The ANAO conducted two tests to determine if the parameters and the formula used to calculate TFES payments in *Staff Online* were correct and consistent with the Ministerial Directions:

- The rates, such as the high density freight factor and the route scaling factor that are used by *Staff Online* to perform payment calculations, were compared with the parameters stated in the Ministerial Directions.¹⁵⁶ The ANAO confirmed that these rates were consistent with the Ministerial Directions.

¹⁵⁴ Centrelink's new IT system to manage TFES claims, *Staff Online*, was introduced at that time.

¹⁵⁵ The Ministerial Directions only require claimants to provide information on weight or volume. When claimants do not include information on both weight and volume, the assessor is expected to check the good against a pre-identified list of known high density goods to ensure that the claimant has correctly identified the good as high density.

¹⁵⁶ The *Staff Online* Table used was PTTS.TTS_RATES_REF.

- Eight claims, submitted and paid in 2009–10, were selected from the TFES database, to represent a range of scenarios: different routes, transport tasks, type of goods (dry or refrigerated, high density or not) and type of container (full container load and less than full container load). The ANAO manually calculated the amount of assistance paid, using the Ministerial Directions parameters, and confirmed that in each case the results were consistent with the assistance calculated and paid.

4.58 The results of ANAO's analysis confirmed the accuracy of the relevant formulas within the database for the two tests undertaken.¹⁵⁷

Accuracy of payment transfers to claimants

4.59 The ANAO sought to determine whether the assistance calculated by *Staff Online* was consistent with the amounts paid to claimants. In order to conduct this test, the ANAO examined whether the assistance amounts calculated by *Staff Online* were accurately transferred to Centrelink's payment system, *Infolink*. This verification involved comparing individual claims' payment amounts between *Staff Online* and *Infolink* for the years 2009–10 and 2010–11.¹⁵⁸

4.60 There was no material discrepancy between the two databases for 2010–11.¹⁵⁹ For 2009–10, the ANAO's check found a difference of \$27 655 between the two databases, representing four transactions. The four discrepancies had been identified and remedied by Centrelink at the time they occurred and the duplication of payments had been prevented in all cases. However, source systems, such as *Staff Online*, should be the repository of all transactional data, and so should accurately mirror all payments made through *Infolink*. Adjustments made in *Infolink* should not occur without representation in the source system, *Staff Online*, so that claimant data is fully representative and accurate claim processing reports can be produced.

4.61 There is scope for Centrelink to implement processes to check that *Staff Online* is in alignment with the payment system *Infolink*. Recognising that a

¹⁵⁷ In order to gain full assurance of the accuracy of the formulas developed in the database, a comprehensive review would need to be conducted within the database programming language. This was not within the scope of the audit.

¹⁵⁸ This verification differed from Centrelink's existing check on the total batch payment information.

¹⁵⁹ ANAO analysis found that *Staff Online* recorded \$5.81 more than *Infolink*, which may be explained by the fact that claims under \$1 are not paid by *Infolink*, although they are calculated by and recorded on *Staff Online* (and added to the payment of future claims).

cost may be involved, Centrelink could investigate why some transactions are not correctly 'finalised' on *Staff Online*, so that such payment integrity issues are not generated in the future.

5. Program Management Arrangements

This chapter examines the high-level program management arrangements established by DIT and Centrelink¹⁶⁰ for TFES, as distinct from the processes put in place for the day-to-day administration of the Scheme. These arrangements include the relationship between DIT and Centrelink; risk management and compliance frameworks; and performance monitoring, evaluation and reporting.

Introduction

5.1 While agencies administering programs are commonly required to deal with an array of day-to-day implementation issues, it is also important that ongoing attention is given to managing the overall direction of those programs through the establishment of strong governance arrangements, the prudent management of risk, and ongoing measurement of performance. When the links between these arrangements are working properly, an agency is better placed to understand a program's position, to make appropriate reforms to program design and delivery arrangements to improve performance, and to work towards effective solutions to public administration challenges.

5.2 Prior to August 2011, the development of these arrangements for TFES was subject to the provisions of an MoU between DIT and Centrelink. From July 2011, Centrelink was established as a master program within DHS. In August 2011, a new Head Agreement between DHS and DIT was signed. DIT is the agency with primary policy responsibility for the Tasmanian Transport Programs, including TFES, and DHS operates as DIT's agent.

5.3 Because key aspects of the Scheme's design and delivery reflect government policy, this necessarily influences the manner in which the Scheme is administered. Within the parameters established by government for the Scheme, both agencies should continue to explore opportunities to make incremental improvements to support the overall performance of the Scheme.

¹⁶⁰ In July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into DHS. In this report, references to Centrelink's activities prior to July 2011 are references to Centrelink as an agency. References to Centrelink's activities after July 2011 are references to the activities of DHS, through the Centrelink program.

Relationship between DIT and Centrelink

Agreements

5.4 Until August 2011, the program management arrangements agreed between DIT and Centrelink were outlined in a suite of documents, principally the MoU between Centrelink and DIT¹⁶¹ and the *Instrument of Authorisation 2009*.¹⁶² While the MoU was due to conclude on 30 June 2007, it has been extended several times, with the latest extension (December 2009) valid until a new MoU was completed. The agencies commenced negotiations to develop the new MoU in 2009 and these were ongoing until the signature of a Head Agreement on 19 August 2011.¹⁶³ The new Agreement describes the administrative arrangements between DHS and DIT for the delivery of the three Tasmanian Transport Programs (including TFES, the Tasmanian Wheat Freight Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme), and replaces all previous agreements.

5.5 The Head Agreement takes into consideration the ANAO's preliminary audit findings, and establishes a number of key mechanisms that were either absent or not fully successful in ensuring that TFES was delivered in a fully effective and accountable manner in the previous MoU. These new mechanisms include:

- improved management information provision by Centrelink;
- improved change management processes;
- a framework for a risk-based management of compliance activities;
- an assurance framework, identifying some of the program's key risks and mitigation actions; and
- a list of new or revised KPIs.

5.6 While the new Head Agreement represents a valuable instrument for establishing more clearly the framework of responsibilities and expectations for the delivery of TFES, the document is presented as a 'work in progress'. In

¹⁶¹ *Memorandum of Understanding between Centrelink and the Department of Transport and Regional Services*, August 2002.

¹⁶² Department of Infrastructure, Transport, Regional Development and Local Government, *Tasmanian Freight Equalisation Scheme – Secretary's Instrument of Authorisation 2009 (No. 2)*.

¹⁶³ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011.

particular, two important features of program administration, compliance activities and quality assurance, are left open to future improvements and modifications:

- Schedule 3 to the Head Agreement, dedicated to the risk-based management of compliance activities for TFES, indicates that the activities described in the schedule are a first step and that the Schedule will be varied following the outcome of more detailed discussions on a 'full risk-based compliance strategy'.¹⁶⁴
- Protocol 2, focusing on business assurance matters (assurance framework and KPIs), also specifies that the measures included in the protocol are designed to focus discussion between the parties and subsequent reporting. The quality assurance KPIs in particular are used to monitor performance in the interim, until improvements over time in reporting and monitoring provide data to inform the development of an accuracy measure.¹⁶⁵

5.7 In its present state, the Head Agreement includes some specific and prescriptive aspects (for instance, the threshold under which claims are to be excluded from verification is determined), but leaves other aspects incomplete (for instance, claims excluded from verification are not submitted to random compliance checks).¹⁶⁶

5.8 The challenge is now for the agencies to maintain the momentum necessary to pursue the development and implementation of the Agreement in order to improve the effectiveness and accountability of TFES' administration. The Head Agreement includes provision for quarterly business meetings between Centrelink's and DIT's management group, aimed at reviewing progress under the Head Agreement.¹⁶⁷ This group will be instrumental in ensuring that the Head Agreement remains an evolving and effective document. While a date of review of the Head Agreement is scheduled for three years after the commencement date, the Quarterly Business Meetings set out in the new Agreement should represent a useful means of assessing progress towards the Agreement's objectives.

¹⁶⁴ *ibid.*, Schedule 3, Section 1.

¹⁶⁵ *ibid.*, Protocol 2, Section 1 and 3.

¹⁶⁶ *ibid.*, Schedule 2, Section 2.

¹⁶⁷ *ibid.*, Sections 7 and 8.

Operational relationships

5.9 Overall, DIT and Centrelink have an effective operational relationship, with almost daily telephone contact between the Centrelink team in Tasmania and DIT in Canberra to resolve any administrative issues.

5.10 The main types of issues on which Centrelink seeks advice from DIT include:

- interpretation and clarification of the Ministerial Directions and Guidelines;
- goods and claimant eligibility, including which business activities are eligible in accordance with the Australian and New Zealand Standard Industrial Classification (ANZSIC), and to define a 'manufacturing process';
- clarification on third parties' role in claiming TFES assistance, including who is authorised to sign TFES claim forms; and
- decisions on claim reviews requested by claimants.

5.11 The 2011 Head Agreement, and before that, the amendments to the 2002 MoU¹⁶⁸, describe the arrangements for referring policy issues to DIT, and provide assurance that decisions made on the interpretation of the Ministerial Decisions are appropriately recorded. The agencies implement a balance of verbal and flexible interactions, with written, more formal exchanges to solve issues regarding policy interpretation and decisions that contribute positively to the operational administration of the Scheme.

Risk management

5.12 Risk management is integral to effective public administration, and helps agencies to promote more effective and transparent decision making and efficient resource allocation.¹⁶⁹ Implementing a risk-based compliance strategy can help to maximise the value of public money spent by identifying and treating potential risks. While DHS, as DIT's agent, has some scope to manage risks affecting the day-to-day processing of TFES claims, DIT, as the principal

¹⁶⁸ Department of Transport and Regional Services, *Amendment to Service Agreement (MoU 2002–2007) between Centrelink and DOTARS*, 20 September 2006.

¹⁶⁹ ANAO Better Practice Guide—*Implementing Better Practice Grants Administration*, June 2010, p. 87.

agency for the Scheme, has primary responsibility for assessing and mitigating program-level risks.

Program risk management framework

5.13 Until November 2011, there was no overarching risk-based compliance strategy for the administration of TFES. Some preliminary work on a possible compliance framework had been conducted:

- In 2008, in line with the Australian Government's response to the 2006 Productivity Commission review, DIT commissioned a report that aimed to develop a new audit and compliance framework for TFES.¹⁷⁰ The report included a risk register identifying the key risks and recommended treatment options.
- In 2010, Centrelink's Customer Compliance Division¹⁷¹ produced a draft proposal for a TFES compliance framework.

5.14 In August 2011, as part of the negotiation for the new Head Agreement between DHS and DIT, Centrelink produced a discussion paper on possible options for a risk-based compliance strategy for TFES.¹⁷² This paper provided the basis for the risk management and compliance activities described in the August 2011 Head Agreement. The Agreement indicates that the agencies will endeavour to undertake more detailed discussion and 'to reach an agreement on a full risk-based compliance strategy within 60 days of signing of the Head Agreement' and to vary the Agreement to reflect the strategy.¹⁷³

5.15 On 4 November 2011, DIT provided a draft compliance strategy to the ANAO, and DIT and Centrelink indicated their commitment to finalise this document by mid-November 2011. The ANAO was not able to review the draft compliance strategy or to verify that DIT and Centrelink had met their timeframe before this report was published.

¹⁷⁰ Ernst & Young, *Audit and Compliance Framework for the Reformed Tasmanian Freight Services*, 2008.

¹⁷¹ Previously the Business Integrity Division.

¹⁷² DHS, *Tasmanian Freight Equalisation Scheme – Compliance: Risk and Strategy Discussion Paper (Draft)*, August 2011.

¹⁷³ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Services Schedule 3, Sub section 1.3.

Implementation of risk management activities

5.16 Centrelink advised that a risk-based approach was implemented during claim assessment. According to Centrelink, this approach focused on claimants at greatest risk of error or fraud, rather than claimants that are paid the greatest amounts of assistance. These higher-risk claimants were identified by Centrelink as being small claimants, who are less likely to be familiar with TFES eligibility requirements, and more likely to commit fraud because, as private owners, Centrelink considered them to be more likely to directly benefit from fraud.

5.17 As presented in Chapter 1, one of the Scheme's key characteristics is that the majority of claimants (76 per cent in 2010–11) receive only two per cent of the total assistance paid; whereas a minority (six per cent) receive 89 per cent of all assistance. By implementing a risk approach to claim assessment focused on businesses that account for the majority of claims but a minority of payments, Centrelink did not effectively address the high financial risk posed by a smaller number of claimants. As identified in Chapter 3 (paragraph 3.56) and in Chapter 4 (paragraph 4.47), two of Centrelink's largest claimants accrued a total debt of \$7.7 million as a result of erroneous claims over several years.

5.18 The TFES database provides Centrelink and DIT with valuable information on which to build a risk profile for the program which would limit the financial risk and allow for improvements in efficiency. For instance, the ANAO identified that excluding all claims of less than \$1000 from the verification process could have a significant impact on operational efficiency, while preserving a low financial risk exposure. In ANAO's analysis, those claims represented 50 per cent of all claims paid in 2010–11, but only 1.7 per cent of the total assistance paid for the year.¹⁷⁴

5.19 The new Head Agreement drew on the ANAO's analysis to establish that, from August 2011, claims falling under a predetermined assistance value would be excluded from up-front verifications. While this measure has, in itself, the potential to generate significant savings in operational resources, there is further scope for Centrelink and DIT to undertake more analysis of the Scheme's risk profile and to use this information to inform the risk-based

¹⁷⁴ Although these claims would be excluded from the verification process, they should still be submitted to relevant compliance activities.

compliance strategy that should be finalised in November 2011 as part of the Head Agreement's commitments.

5.20 While compliance activities should be commensurate with the size and characteristics of a program, and the available operational budget, this risk-based compliance strategy should help identify:

- the types of compliance activities to be undertaken;
- the agency responsible for these activities;
- how frequently they will be conducted;
- the level of assurance obtained from the activity; and
- how they will be reported.

5.21 Such a risk-based compliance strategy would support a more effective deployment of the agencies' limited resources and ensure that greater emphasis is given to those areas presenting the greatest risk to the effective delivery of the Scheme.

Monitoring, evaluation and reporting

5.22 Performance monitoring and evaluation are important not only to assess whether the aims of a program are 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.

Performance monitoring

5.23 Prior to the August 2011 Head Agreement, the performance of TFES was monitored through KPIs set out in the MoU between DIT and Centrelink. DIT had to achieve two KPIs, relating to the timely provision of information and responses to Centrelink on issues relating to policy. DIT did not measure or report on these KPIs.

5.24 Centrelink's KPIs related to:

- the timely processing of claims;
- the rate of uptake by claimants of the electronic lodgement of claims facility, the TFES Bulk Upload System (TBUS);
- claimants' satisfaction with Centrelink's services;

- the accuracy of claim assessments; and
- the completion and outcome of TFES compliance reviews.¹⁷⁵

5.25 Table 5.1 provides an analysis of Centrelink's monitoring and reporting of the Scheme's KPIs.

¹⁷⁵ The KPIs relating to timeliness and claimants' satisfaction are discussed in Chapter 2.

Table 5.1
Centrelink KPIs monitoring and reporting

KPI	Centrelink's assessment		ANAO's assessment		Comments
	Reported	Achieved	Reported	Achieved	
1. Timeliness	✓	✗	✓	✗	Not achieved for 2009–10 and 2010–11 as a whole, significant variations in achievement between months (see Chapter 2).
2.1. Forty-five per cent (by value) of TFES entitlements are assessed through streamlined procedures (TBUS lodgement)	✓	✓	✗	✓	Centrelink measured and reported the number and percentage of claimants lodging their claims using the TBUS system. Centrelink did not measure or report the <u>value of the claims</u> lodged by TBUS claimants. The ANAO identified that for 2010–11, 46 per cent of claims were lodged using the TBUS system, representing 75 per cent of the assistance paid.
2.2. Customers are satisfied with Centrelink services	✗	N/A	✗	N/A	Since 2003, Centrelink has not measured customer satisfaction. The ANAO conducted a claimant satisfaction survey that indicated that across all questions, 58 per cent of respondents where either satisfied or very satisfied with TFES administration (See Chapter 2).
3. Accuracy of assessments - 97 per cent (by value) of TFES assessments result in correct payment of entitlements	✓	✓	✗	✗	The results reported by Centrelink for this KPI did not measure accuracy of assessments. Accuracy of assessment is measured by pre- and post-payment QA checks. Centrelink did not report pre-payment QA results, and did not conduct post-payment accuracy checks. Based on an analysis of QA results, the ANAO estimated that between nine and 19 per cent of all claim assessments are likely to contain errors that have an impact on payments (see Chapter 4).

KPI	Centrelink's assessment		ANAO's assessment		Comments
	Reported	Achieved	Reported	Achieved	
4.1 TFES compliance reviews are conducted in accordance with agreed schedule	✓	✓	✓	✓	<p>The ANAO has identified that some of the activities classified by Centrelink as compliance reviews are better defined as reports on claimants' self declarations, while others may not be fully effective in providing adequate assurance of claimants' compliance.</p> <p>In this context, a number of Centrelink's reviews identified non-compliance and appropriate action had been considered or taken by the agency to ensure that claimants achieve compliance (refer to section on Compliance in this chapter).</p>
4.2 TFES compliance and targeted reviews confirm compliance with obligations	✓	✓	✓	✓	

Source: ANAO analysis.

5.26 The August 2011 Head Agreement between DHS and DIT includes an updated series of KPIs.¹⁷⁶ However, a number of these KPIs (in particular relating to Centrelink's QA and compliance performance) are presented as temporary, pending the outcomes of further work or discussions between the agencies; others do not have targets against which performance can be measured, and as such are better described as management information than as KPIs. Consequently, while these new KPIs constitute a starting point, more work is required to support the effective monitoring of the agencies' performance in administering TFES.

Reporting

External reporting

5.27 Centrelink's and DIT's annual reports have included information on TFES. Centrelink's *Annual Report* indicated the Scheme's performance against its timeliness KPI.¹⁷⁷ DIT's *Annual Report* provides a concise overview of the Scheme, the number of claims and the amount of assistance paid.¹⁷⁸

5.28 Centrelink and DIT published statistical information on TFES on an annual basis. The TFES Statistics booklets for the years 2001–02 to 2008–09 were available from Centrelink's website.¹⁷⁹ As at June 2011, the 2009–10 edition of the booklet was yet to be published.

5.29 Other external reporting performed by DIT and Centrelink included numerous attendances at Senate Estimates hearings sessions, where a range of TFES business and eligibility issues were discussed.

Internal reporting

5.30 Until August 2011, the main internal report on TFES' operations was a monthly report, produced by Centrelink and provided to DIT. The monthly report contained information on TFES' performance and addressed some of the KPIs set out in the MoU between Centrelink and DIT, including:

- the number, value and timeliness of claims processed and paid;

¹⁷⁶ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Protocol 2.

¹⁷⁷ Centrelink, *Annual Report 2009–10*, p. 38.

¹⁷⁸ Department of Infrastructure and Transport, *Annual Report 2009–10*, p. 50–51.

¹⁷⁹ Centrelink, *Tasmanian Freight Equalisation Scheme Statistics, 2008–09*, available from <http://www.centrelink.gov.au/internet/internet.nsf/publications/tf_s.htm> [accessed 25 May 2011].

- details of claimants receiving \$300 000 or more in the financial year;
- the value of the assistance paid under the King Island and Furneaux Group component; and
- updates on the number of claims lodged electronically.

5.31 While the monthly reports provided the status of Centrelink's review and compliance activities, the results of these activities was not reported. A brief outline of Centrelink's quality assurance activities relating to payment processing was provided in the monthly reports, however, error results were not reported. The monthly reports also did not indicate the amount or number of incorrect payments made.

5.32 The 2011 Head Agreement addresses most of these issues.¹⁸⁰ Further, additional reporting mechanisms are now specified in the Head Agreement, including:

- quarterly reports, that must include analysis and commentary on trends and emerging risks;
- exception reports, if Centrelink does not meet KPIs and in case of unusual events; and
- an annual 'data dump' to inform the reviews by the Bureau of Infrastructure, Transport and Regional Economics (BITRE).

Evaluation

5.33 Evaluation determines whether, and to what extent, program objectives are being met. Conducting reviews and evaluation is important to gain increased visibility of a program's achievements. Evaluation should also be used, where relevant, to prompt action aimed at improving the program's management. In recent years, several evaluations of TFES have been conducted and these have comprehensively documented the complexity of the Scheme.

5.34 The most prominent review was published by the Productivity Commission in 2006.¹⁸¹ The Productivity Commission's overall conclusion was that TFES should undergo significant reforms in order to effectively achieve its

¹⁸⁰ Department of Human Services and Department of Infrastructure and Transport, *Head Agreement between DHS and DIT*, 19 August 2011, Services Schedule 2.

¹⁸¹ Productivity Commission, *Tasmanian Freight Subsidy Arrangements*, Report No. 39, 2006.

objectives. More recently, the Parameter Review conducted by BITRE (2010, unpublished) and the Simplification Review undertaken by DIT (2011, unpublished) have put forward a number of options aimed at improving TFES's effectiveness and at simplifying the Scheme's management. At an operational level, two series of reports commissioned by DIT have examined the adequacy of TFES claim processing¹⁸² and developed an audit and compliance framework for TFES.¹⁸³ These reports made several recommendations aimed at improving the administration and the effectiveness of the Scheme.

5.35 Some of the recommendations put forward by these reports involved reform of the Ministerial Directions, which is ultimately a policy decision for Government. The agencies have addressed a number of recommendations relating to the administration of the Scheme. Most notably, the agencies have developed and implemented a new IT management system (*Staff Online*). This improved system reduces the risk of incorrect calculations of TFES payments and improves the monitoring and reporting capabilities for the Scheme. DIT and Centrelink have also implemented a range of improvements to business processes. One such improvement is the random allocation of claims across assessors, which has mitigated the risks of complacency and collusion that may have arisen when assessors were allocated a specific portfolio of claimants.

5.36 However, DIT and Centrelink have not always fully capitalised on the information available through past reviews and evaluations of TFES. Most significantly, the need for a risk management strategy and for a compliance framework was documented in the two reports commissioned by DIT, but was not addressed by DIT and Centrelink until August 2011.

Effectiveness of monitoring and reporting activities

5.37 TFES' performance was, until August 2011, monitored mostly through KPIs set out in the MoU between DIT and Centrelink.¹⁸⁴ The extent to which the agencies reported and achieved these KPIs was variable. The main internal report on TFES' operations, the monthly report provided to DIT by Centrelink,

¹⁸² KPMG, *Review of the Tasmanian Freight Equalisation Scheme and the Bass Strait Passenger Vehicle Equalisation Scheme*, Phase 1, May 2006, and Phase 2, June 2006.

¹⁸³ Ernst & Young, *Audit and Compliance Framework for the Reformed Tasmanian Freight Services*, Stage 1, May 2008; Stage 2, January 2009; and Stage 3, November 2009.

¹⁸⁴ *Memorandum of Understanding between Centrelink and the Department of Transport and Regional Services*, August 2002.

was not sufficiently comprehensive to effectively monitor performance and review overall progress and trends.

5.38 The August 2011 Agreement sets the framework for improved monitoring and reporting of TFES, and once the tasks required to finalise the KPIs are completed, should allow the agencies to gain a higher level of confidence that the Scheme is delivered effectively and that accountability measures are in place.



Ian McPhee
Auditor-General

Canberra ACT

22 November 2011

Appendices

Appendix 1: Detailed agencies' responses to the proposed audit report

Department of Infrastructure and Transport

The Department of Infrastructure and Transport (DIT) notes the findings and recommendations made in the ANAO's audit of the Tasmanian Freight Equalisation Scheme. DIT commenced work to implement the recommendations during the audit and this work remains an ongoing focus.

The Department accepts Recommendation No. 1 in relation to improving processing claims and payment accuracy, and while broadly supportive of the recommended approach, recognises that this is a matter for the Department of Human Services (DHS).

The Department accepts Recommendation No. 2 in relation to strengthening TFES quality assurance activities. The Department, with DHS, has improved the quality assurance activities undertaken for TFES, including the approval of the new Business Management Agreement (BMA). This agreement outlines the arrangements between DIT as the policy agency and DHS as the service delivery body, for the delivery of TFES. Under this agreement, DIT and DHS will work together to ensure the effective delivery of TFES and establish a compliance strategy to assist with a more risk-based approach to compliance and process improvement. The Department is currently working with DHS to finalise the compliance strategy.

The Department accepts Recommendation No. 3 in relation to improving data integrity. The Department will facilitate quarterly meetings with DHS to discuss progress against the reporting requirements under the BMA. The Department is aware that DHS agree in principle to the recommendation and funding implications will be further discussed between DHS and DIT.

Department of Human Services

The Department of Human Services (the Department) welcomes this report and considers the implementation of its recommendations will build on the ongoing work to streamline procedures for administration of the Tasmanian Freight Equalisation Scheme and enhance performance outcomes for the Scheme.

The Department has commenced discussions with the Department of Infrastructure and Transport to address the recommendations.

Appendix 2: Schedule 1 of the Ministerial Directions for the Operation of the Tasmanian Freight Equalisation Scheme¹⁸⁵

Approved by the Minister for Transport and Regional Services

The Honourable John Anderson

September 2002

Amendments approved by the Acting Minister for Infrastructure, Transport,
Regional Development and Local Government

The Honourable Christopher Bowen

July 2008

Schedule 1 amendments approved by the Secretary of the Department of
Infrastructure, Transport, Regional Development and Local Government

September 2009

SCHEDULE 1: GOODS ELIGIBLE FOR ASSISTANCE UNDER THE NORTHBOUND AND INTRASTATE COMPONENTS OF THE SCHEME

	Code
A	
Asbestos fibres and mixtures	
Asbestos fibres and mixtures	37920
Animal and vegetable oils and fats	
Animal fats like tallow; wool grease	21500
Margarine	21550
B	
Bakery products	
Bakery Products like bread, cakes, buns, etc	23400
Beverages	
Beer in kegs	24340
Beer in cartons	24350
Beer in stubbies or cans	24360
Beer in other packaging	24370
Malt	24320
Malt - Liquid preparations	24330

¹⁸⁵ Department of Infrastructure and Transport website, http://www.infrastructure.gov.au/transport/programs/maritime/tasmanian/pdf/TFES_MDs_September09.pdf, [accessed 20 September 2011].

Cider and other fermented beverages	24230
Fruit juices and vegetable juices	21440
Natural water	18000
Other non-alcoholic beverages	24490
Spirits, liqueurs and other spirituous beverages	24100
Waters (unsweetened/flavoured) except natural water	24410
Wine in an isotainer	24240
Wine in a Palloon	24250
Wine in cartons	24260
Wine in bottles	24270
Wine in other packaging	24280

C

Carbon

Artificial graphite or other carbon preparations	37950
Coke and semi-coke of coal, lignite, peat; carbon	33100

Cement, concrete and articles thereof

Concrete products	37500
Other cement	37440

Chemical products

Calcium carbide	34260
Cleaning and polishing preparations	35300
Colouring matter except Titanium dioxide	34300
Ferric and ferrous sulphate	34230
Other chemical products	35490
Paints, varnishes and removers	35100
Plastaid	34190
Silica fume	34250
Titanium dioxide	34220
Whiting (carbonate of lime)	34210

Confectionery and chocolate products

Confectionary and chocolate products – other	23690
Liquid chocolate	23680
Sugar confectionery and food preserved by sugar	23670

D

Dairy products

Butter and other derived from milk	22240
Casein	22260
Cheese and curd	22250
Condensed milk in Palloon	22220

Milk, processed	22210
F	
Fertilizers, pesticides	
Mineral or chemical fertilizers	34600
Pesticides	34660
Fibreglass and plastic materials and products	
Glass fibres, except woven fabrics	37120
Plastic products	36300
Fish	
Fish, fresh or chilled	21210
Fish, frozen, preparations or other	21220
Footwear	
Footwear	29300
Fruit and fruit preparations	
Apples – Cartons	01330
Apples – Containers	01340
Apples – Bins	01350
Apples - 3/4 Cartons	01360
Fruit, fresh	01310
Prepared and preserved fruit and nuts	02140
Furniture	
Furniture	03890
G	
Glass and glass products	
Glassware (cullet)	37130
Other glass articles	37190
Grain mill products	
Cereals and Cereal preparations	23140
Wheat flour	23110
L	
Livestock	
Sheep, adult	02110
Sheep, stud	02120
Lambs	02130
Goats, adult	02140
Kids	02150
Cattle, adult	02160
Cattle, stud	02170
Calves	02180

Horses	02190
Foals, Alpacas	02200
Deer, adult	02210
Fawns	02220
Pigs	02230
Emus, Ostriches	02240

M

Machine and hand tools

Machine and hand tools	42900
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Machinery and transport equipment

Machinery, pumps, ovens, lifting equipment	43000
Agricultural, horticultural or forestry machinery	44100
Machine-tools, powered hand tools	44200
Machinery for metallurgy, casting machines	44300
Machinery for mining, quarrying and construction	44400
Machinery for food, beverage and tobacco processing	44500
Machinery for textile, apparel and leather production	44600
Other special-purpose machinery	44900
Medical appliances, optical instruments, clocks	48000
Other precision instruments	48200
Vehicles	49100
Trailers and semi-trailers; containers	49220
Transport equipment (ships, railway locomotive)	49300
Aircraft and parts	49600
Other transport equipment	49700

Meat and meat products

Meat, fresh, chilled, hanging	21110
Meat, frozen, processed, other	21150

Metal and metal products

Aluminium powder metal, paste and ingot	41500
Ferro silicon	34240
Other metal goods	42990
Other metals, ash and residue containing metallic compounds	41600
Rolled, drawn, folded products of iron and steel, like rods, tubes	41200
Unwrought metals e.g. copper, nickel, lead, zinc	41400

O

Ores and concentrates

Low density (Limil)	14270
Other metal ores and concentrates	14280

Rutile, zircon	14250
Tin	14260
Other animal products	
Hides, skins, furskins	02950
Insect waxes like bees wax	02960
Natural honey	02910
Eggs, all forms	02920
Wool	02940
Other transportable products	
Polymer tanks for liquids (<i>shipments from 19 August 2009</i>)	36950
Prefabricated buildings (<i>shipments from 22 July 2009</i>)	38700
P	
Paper and paper products	
Newsprint	32120
Other paper, paper products and printed matter	32190
Paper	32140
Preparations used in animal feeding	
Preparations used in animal feeding	23310
R	
Raw vegetable materials	
Cut flowers (<i>shipments from 19 August 2009</i>)	01930
Hops	01660
Live plants, mushroom spawn	01920
Sedge	01960
Seeds	01900
Turf	01940
Tree ferns	01950
Refractory products (bricks, blocks, tiles)	
Refractory products (bricks, blocks, tiles)	37300
Refractory products (pottery, other) (<i>shipments from 22 July 2009</i>)	37310
S	
Showman's equipment	
Showman's equipment	50010
Soil conditioners	
Coal, lignite	11000
Cocoa shells, husks, skins and other cocoa waste	39150
Peat 11050	
Seaweeds and other algae	04930

Wood chips or particles	31230
Sportsperson's equipment	
Sportsperson's equipment	50020
Stone and sand	
Natural sands	15310
Pebbles, gravel, broken stone	15320
T	
Textile fabric and articles; yarn	
Floor covering	27200
Knitted or crocheted fabrics; apparel; furskins; artificial fur	28000
Made textile articles (blankets, tarps, cushions)	27100
Yarn; thread; textile fabrics	26000
V	
Vegetables and vegetable products	
Vegetables – fresh	01200
Vegetables - frozen, processed, prepared or other	21300
W	
Waste or scraps	
E-waste	39960
Metal waste and scrap	39300
Miscellaneous textile wastes	39210
Recycled glass	39290
Used tyres	39260
Waste organic solvents like oil	39940
Waste, scrap paper or paperboard	39240
Waste, scrap of plastics	39270
Wood products	
Hardboard	31400
Particle board	31430
Other plywood, veneers, laminates	31420
Other products of wood, cork, plaiting materials and straw	31900
Wood, processed	31000
Wood pulp; other fibrous cellulosic material	32110
Y	
Yeast	
Yeast	23990

Appendix 3: Payment calculation

Assistance payable for a standard shipping container¹⁸⁶ shipped and paid for on a wharf-to-wharf basis across the Bass Strait is derived by firstly determining a 'notional wharf-to-wharf freight cost disadvantage'. This is calculated by deducting a fixed road freight equivalent cost¹⁸⁷ from the actual wharf-to-wharf cost paid by the claimant. The total assistance payable is then a scaled proportion of this amount plus an allowance for intermodal transport.¹⁸⁸

To provide an incentive for shippers to seek lower freight rates, the level of a shippers 'notional wharf-to-wharf freight cost disadvantage' is scaled using rates that decline as the total freight cost increases. Depending on the assessment of the shipper's 'notional wharf-to-wharf (NWW) cost disadvantage', shippers can receive:

- 100 per cent of the first \$335.50 of a shipper's cost disadvantage per standard shipping container plus;
- 75 per cent of the cost disadvantage from \$335.51 to \$671, plus;
- 50 per cent of the cost disadvantage from \$671.01 to \$1006.50; and
- no refund for any cost disadvantage that exceeds \$1006.51.

The intermodal¹⁸⁹ fixed-cost allowance has been set at \$100 per standard shipping container.

The Scheme's customer guidelines stipulate that the amount of assistance paid will not exceed the wharf-to-wharf, or adjusted wharf-to-wharf, freight bill paid by the shipper, and the maximum assistance payable per standard shipping container has been set at \$855. Table A 1 shows the assistance formula for the four shipper categories.

¹⁸⁶ The Ministerial Directions refer to a standard shipping container as a twenty-foot equivalent unit container (TEU) and define this as a 6.1 metre container or reefer equivalent.

¹⁸⁷ In the case of goods moved between mainland Australian and Tasmania the road freight equivalent is \$281 per standard shipping container (dry) and \$309 per standard shipping container (reefer).

¹⁸⁸ Adjustments are made to freight costs in some circumstances such as where goods are transported on routes other than between northern Tasmania and Victoria. Source: Centrelink, *Tasmanian Freight Equalisation Scheme Guidelines for customers [TAS007.1004]*.

¹⁸⁹ Intermodal fixed-cost allowance refers to the added cost of the intermodal transfer of goods at each end of the sea journey—commonly, from truck to ship and ship to truck.

Table A 1**Assistance payable per standard shipping container or equivalent**

Freight Category	Assistance Formula
Class 1 Shipper (NWW: \$0 to \$335.50)	$NWW + FC$
Class 2 Shipper (NWW: \$335.51 to \$671)	$MWW/2 + 0.75(NWW - MWW/2) + FC$
Class 3 Shipper (NWW: \$671.01 to \$1006.50)	$MWW/2 + 0.75(MWW/2) + 0.5(NWW - MWW) + FC$
Class 4 Shipper (NWW: \$1006.51 +)	$MWW/2 + 0.75(MWW/2) + 0.5(MWW/2) + FC$

Note: MWW = median wharf-to-wharf disadvantage, set at \$671 by the TFES Review Authority in 1996–97;

NWW = notional wharf-to-wharf freight cost disadvantage, calculated the shipper's actual freight cost less GST (this may also need to be adjusted for factors such destinations and beyond warf delivery points); and

FC = fixed intermodal cost, set at \$100.

Source: ANAO analysis, based on Ministerial Directions Schedule 3.

Assistance calculation example

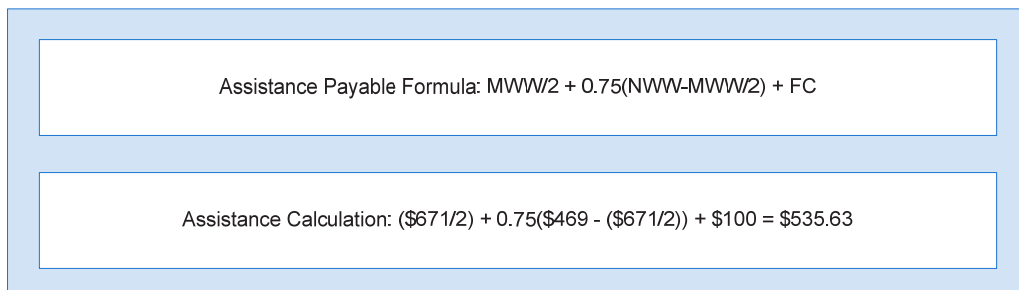
A claimant ships one standard container of dry-freight goods from Davenport to Melbourne at an actual freight cost of \$750 (GST excluded).

The claimant's notional wharf-to-wharf (NWW) disadvantage is \$469, calculated as the freight cost of \$750 less the fixed road-freight equivalent cost of \$281.¹⁹⁰ Due to the NWW disadvantage being between \$335.51 and \$671, the claim falls within the 'Class 2 Shipper' category (see Table A 1), so the assistance is calculated using the corresponding formula. The assistance payable for the shipment example is \$535.63.

¹⁹⁰ The example assumes that there are no other adjustments required, such as where an invoice is based on the door-to-door cost rather than wharf-to wharf cost.

Figure A 1

Assistance calculation



Source: ANAO analysis

This basic formula is used to calculate assistance for eligible shipments made on a wharf-to-wharf basis between northern Tasmania and Victoria (Bass Strait route). However, eligible claims may also include: routes other than between northern Tasmania and Victoria; less than full container loads; use of transport units other than a standard shipping container; heavy or high density cargo; and wharf-to-door or door-to-wharf costs.

To calculate the assistance payable for claims which include these elements, additional scaling and adjustment factors are applied to estimate the notional wharf-to-wharf freight cost disadvantage (Bass Strait route). For example, if a claim is for a standard shipping container being shipped from Northern Tasmania to a destination within New South Wales a scaling factor of 1.8 is applied. This reduces the notional wharf-to-wharf freight rate to an equivalent rate for the Bass Strait route (defined as 420 kilometres between northern Tasmania and Victoria).

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The National Blood Authority's Management of the National Blood Supply
National Blood Authority

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Indigenous Secondary Student Accommodation Initiatives
Department of Families, Housing, Community Services and Indigenous Affairs
Department of Education, Employment and Workplace Relations

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Administration of the National Partnership on Early Childhood Education

Department of Education, Employment and Workplace Relations

ANAO Audit Report No.11 2011–12

Implementation and Management of the Housing Affordability Fund

Department of Families, Housing, Community Services and Indigenous Affairs

Department of Sustainability, Environment, Water, Population and Communities

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Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory

Department of Families, Housing, Community Services and Indigenous Affairs

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