

The Auditor-General
Audit Report No.47 2011–12
Performance Audit

Small Business Superannuation Clearing House

Department of the Treasury
Department of Human Services
Australian Taxation Office

Australian National Audit Office

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of Australia 2012

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Canberra ACT
22 June 2012

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of the Treasury, Department of Human Services and the Australian Taxation Office 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 *Small Business Superannuation Clearing House*.

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

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

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

ABN	Australian Business Number
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
BPAY	Bill Pay, a type of electronic funds transfer
CEO	Chief Executive Officer
DHS	Department of Human Services
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
FTE	Full Time Equivalent staff
ICT	information and communication technology
ISM	<i>Information Security Manual</i>
KPI	key performance indicator
PSPF	<i>Protective Security Policy Framework</i>
RIS	Regulation Impact Statement
SBSCH	Small Business Superannuation Clearing House
SG	Superannuation Guarantee

Summary and Recommendations

Summary

Introduction

1. Superannuation is a long-term vehicle for building retirement savings, and is a key element of the Government's policies to address the financial independence of Australia's ageing population. Under the *Superannuation Guarantee (Administration) Act 1992*, all workers aged between 18 and 69 (inclusive) who earn \$450 or more (before tax) in a month must have a minimum of nine per cent of their ordinary time earnings contributed to superannuation by their employer.¹ These contributions are in addition to salary or wages and are known as 'Superannuation Guarantee' (SG) contributions.²
2. On 1 July 2005, amendments to superannuation legislation, commonly known as 'Choice of Funds', came into effect.³ The amendments required employers to allow eligible employees to choose a superannuation fund to which their SG contributions would be credited. As a consequence, employers could face additional administrative demands when making payments into multiple superannuation funds on behalf of their employees. 'Clearing house services' emerged in the superannuation industry to assist employers. These services receive a single aggregated superannuation contribution amount and payment instructions from an employer, and then distribute each employee's contribution to the superannuation fund of the employee's choice. Offered as a stand-alone service or as part of payroll, banking or superannuation services, they are readily available to employers. Employers can be charged directly for them, or can receive them free of charge in conjunction with other services.
3. In 2007, the then Opposition made an election commitment to reduce the 'red tape' imposed on businesses, particularly small ones, by introducing a

¹ On 1 July 2013 this will change, as per the *Superannuation Guarantee (Administration) Amendments Act 2012*, which received Royal Assent on 29 March 2012. The contribution rate will increase from nine per cent to 12 per cent between 1 July 2013 and 1 July 2019. The age limit of 69 will be removed from 1 July 2013, and employers will be required to contribute for employees aged 70 and older.

² Australian Taxation Office, *Guide to Superannuation for Individuals—Overview*, 2011, <<http://www.ato.gov.au/content/00250233.htm?headline=SuperEssentials&segment=Individuals>> [Accessed 24 April 2012].

³ The amendments were introduced in the *Superannuation Laws Amendment (Choice of Superannuation Funds) Act 2004*, with a commencement date of 1 July 2005.

government-supported superannuation clearing house facility.⁴ The 2008–09 Federal Budget subsequently provided \$16.1 million over three years for the facility.⁵ The Australian Taxation Office (ATO) was nominated as the agency that would administer the facility, consistent with the ATO's responsibility for the administration and regulation of employers' SG obligations under the *Superannuation Guarantee (Administration) Act 1992*. Treasury, as the policy agency for superannuation policies and legislation, was responsible for designing the program. The Budget measure provided that the ATO would use private sector providers to deliver the service, which would be offered free of charge for businesses with fewer than 20 employees and at a cost to larger employers.

4. An additional benefit of using the government-supported superannuation clearing house facility was that an employer's SG obligation would be discharged when payments were received by the clearing house. Employers using private sector clearing houses need to allow sufficient time for their superannuation contributions to be received, processed and paid by the clearing house to the superannuation fund, before their SG obligation is discharged. At the time the measure was announced it was assumed that the facility would be taken up by 10 per cent of the eligible population in the first year of the facility's operation, and 15 per cent in the subsequent year.⁶

5. Following a period of public consultation and assessment of program design options, the Government announced on 6 November 2009 that a free superannuation clearing house service—the Small Business Superannuation Clearing House (SBSCH)—would be offered to businesses with fewer than 20 employees through Medicare Australia rather than the ATO or the private sector.⁷ Medicare Australia was considered well placed by the Government to

⁴ Australian Labor Party Media Statement, *Real Action to Cut Red Tape*, 10 May 2007, <<http://pandora.nla.gov.au/pan/22093/20071005-1425/www.alp.org.au/media/0507/msloosbicsuif100f0b6.html>> [Accessed 26 April 2012].

⁵ Commonwealth of Australia, *Budget Paper 2*, 2008–09, p. 290.

⁶ As the program's implementation progressed, take-up assumptions used by Medicare Australia in its costing calculations (discussed in Chapter 2) changed to 10 per cent of eligible small business employers in each of the three years. The small business population used by Medicare Australia for its costing calculations was 755 758.

⁷ Minister for Financial Services, Superannuation and Corporate Law, the Hon. Chris Bowen, 6 November 2009, Joint Media Release No.035, *Cutting Red Tape for Small Business — Superannuation Clearing House Service*. <<http://mfsscl.treasurer.gov.au/DisplayDocs.aspx?pageID=003&doc=../content/pressreleases/2009/035.htm&min=ceba>> [Accessed 19 April 2012].

deliver the service as a 'key service delivery agency with significant electronic and payment processing capacity whilst ensuring the privacy of information and the security of funds'. This delivery model also removed the prudential regulation risk of a private sector clearing house collapsing while holding SG contributions. The \$16.1 million allocation identified in the 2008–09 Budget was transferred from the ATO to Medicare Australia.

6. The objectives of the program are to: provide a free service; reduce time and paperwork burdens; assist employers to make SG payments; promote standardised information sharing; and encourage take-up of e-commerce. The SBSCH is provided as an online service and uses e-commerce channels for transactions.⁸ Employers self-register through an online portal and enter their business and nominated employees' details. Periodically, usually quarterly, they make superannuation payments to a special account in the Reserve Bank of Australia and send an accompanying contribution statement to the SBSCH. When the details of payments in the contribution statement are verified, the SBSCH issues a pay authority to the Reserve Bank of Australia, which then transfers funds to employees' superannuation funds. Unverified payments are returned to employers, who are advised of the returns. Medicare Australia also runs a helpdesk call centre to assist SBSCH users.

7. The SBSCH accepted registrations from employers and Australian Prudential Regulation Authority regulated superannuation funds (which receive payments from the SBSCH) beginning on 24 May 2010, and began full operations from 1 July 2010. From its inception until the end of June 2011, the SBSCH was provided by Medicare Australia. From 1 July 2011, Medicare Australia was integrated into the Department of Human Services (DHS).⁹ For the purpose of this audit, reference is made to Medicare Australia, acknowledging the integration of Medicare Australia into DHS on 1 July 2011.

⁸ Electronic commerce, commonly known as e-commerce, is the buying and selling of products or services over electronic systems such as the Internet. E-commerce uses technologies such as electronic funds transfer and online transaction processing.

⁹ On 1 July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into the Department of Human Services.

8. Twenty-six full time equivalent (FTE) staff were allocated to the program in 2011–12, and as at 31 May 2012, the SBSCH has:

- 24 397 employers registered, who together make payments on behalf of 159 037 employees;
- 3655 superannuation funds registered to take payments, made up of 423 Australian Prudential Regulation Authority (APRA) regulated funds and 3232 self-managed superannuation funds; and
- made 86 522 employer payments representing 561 010 payments for employees, totalling \$316.5 million.¹⁰

Future developments

9. In December 2010, the Government announced its ‘Stronger Super’ reforms in response to the recommendations of a review into the governance, efficiency, structure and operations of Australia's superannuation system (known as the Cooper Review).¹¹ Following consultations with industry stakeholders, the Government announced its decisions on key design aspects of the Stronger Super reforms in September 2011.¹² Its key components are the increased use of e-commerce, uniform data standards, and the use of tax file numbers as a key identifier of member accounts. The introduction of data and e-commerce standards raises potential implementation issues for small employers. Treasury, on its website, affirms that ‘smaller employers will be able to utilise the free services offered by the Medicare Australia Small Business Superannuation Clearing House to streamline their processing’. This policy development points to a potential increased demand for the SBSCH.

¹⁰ Information supplied by Medicare Australia.

¹¹ Minister for Financial Services and Superannuation, the Hon. Bill Shorten, 16 December 2010, Media Release No.024, *Government Super Reforms Mean More Money in Retirement*, <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/024.htm&pageID=003&min=brs&Year=&DocType=>> [Accessed 19 April 2012].

¹² Minister for Financial Services and Superannuation, the Hon. Bill Shorten, 21 September 2011, Media Release No.131, *A Better Deal for Superfund Members*, <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/131.htm&pageID=003&min=brs&Year=&DocType=>> [Accessed 19 April 2012].

Audit objective, criteria and scope

Objective

10. The objective of the audit was to assess the effectiveness of the implementation and administration of the Small Business Superannuation Clearing House.

Criteria

11. The audit examined whether the SBSCH's:
- program design and implementation strategy was appropriate and effective;
 - administrative arrangements are effective and meet regulatory requirements;
 - information and communication technology (ICT) systems are effective, provide for the secure electronic transfer of funds and protect the privacy of employers' and employees' information; and
 - governance arrangements support operations and performance reporting.

Scope

12. The audit examined the involvement of Treasury, DHS and the ATO in the program design, implementation and subsequent operation of the SBSCH.

Overall conclusion

13. Allowing employees to choose their superannuation funds for SG contributions in 2005 created a potential compliance burden on employers. Clearing house services, which receive payment instructions and SG payments from employers and distribute these payments to the superannuation funds of employees' choice, emerged in the private sector. The market for clearing house services is well established—these services are presently offered by a variety of entities, either alone or in conjunction with superannuation, banking or payroll services. The 2008–09 Budget included \$16.1 million over three years to provide a government-supported superannuation clearing house facility, designed to reduce red tape and make compliance with SG obligations easier for small businesses. The measure named the ATO as the agency which would administer the facility, using private sector providers. Subsequent changes to

the delivery model for the proposed facility culminated in the establishment of a clearing house facility administered by Medicare Australia. The SBSCH began taking SG contributions from employers on 1 July 2010.

14. The SBSCH has been operating for nearly two years. The program provides a free superannuation clearing house service that is well regarded by the small businesses that use it and the superannuation funds that receive SG contributions through it, and thus meets its primary objective.

15. Treasury's approach to designing the program and service delivery model appropriately included public consultation and took into account ministerial views. Treasury undertook a preliminary impact assessment of the legislative and competition impacts on the market at an early stage. However, in later analysis and advice to the Government the department did not prepare formal assessments of the potential legislative and competition impacts of the program, although it noted competition impact issues in advice provided to the Government. Medicare Australia successfully implemented the SBSCH and the service is well administered, although the number of employers using it is substantially lower than the level assumed for costing the Budget measure.

16. While questions of policy and budget allocation are matters for government, there is at present a substantial difference between the cost of SBSCH transactions (on the basis of funding provided to Medicare Australia) and the prices of private sector clearing house services, even allowing for the comprehensive service provided by the Commonwealth. Factors such as the private sector's ability to bundle services and to achieve economies of scale are relevant here, as well as recognising that the cost of providing a service to employers with less than 20 employees could be higher given the smaller number of transactions per employer. However, the difference relates primarily to a combination of low take-up and higher operating costs.

17. By way of background, Treasury conducted a public consultation process in November 2008 in accordance with policy co-design principles, to inform the design of the SBSCH program. The 36 submissions Treasury received confirmed that there was a mature private sector market for providing clearing house services. In April 2009, Treasury recommended to the Government that the service be provided by multiple private sector providers. The then Minister for Superannuation and Corporate Law did not accept this recommendation. Treasury subsequently designed a single provider program and service delivery model considering both private and public sector options.

In September 2009, it recommended that Medicare Australia administer and operate the scheme.

18. In providing advice to the Government concerning the program design and delivery model, Treasury was expected to follow the Office of Best Practice Regulation's policy relating to consideration of legislative and competition impacts. In summary, agencies are required to consider the need for a Regulation Impact Statement (RIS) if a proposed legislative requirement was likely to have a significant impact on business and individuals or the economy.¹³ In the context of responding to the election commitment, Treasury conducted a preliminary impact assessment in December 2007 and determined that a full assessment was not required. Treasury, however, formed this view before the program delivery model had been decided, and without the benefit of the public consultation process, which provided important perspectives on an existing private sector market and the potential impacts of government regulation and funding on it.

19. Treasury had two further opportunities to formally assess any legislative and competition impacts on the existing market. Firstly, when providing advice to the Government in April 2009 on the proposed multiple private sector delivery model, and secondly when providing advice in September 2009 about the public sector delivery model. Treasury did refer to competition issues in its advice but formal assessments would have provided more comprehensive briefing to the Government and better informed the Government's decision-making process.

20. Following the decision that Medicare Australia would implement the SBSCH, the agency had eight months to develop and deliver the SBSCH program. This was a very short timeframe in which to establish business processes, management oversight and supporting information systems. Medicare Australia implemented the service on time and within budget. Development of the ICT systems for the SBSCH followed a Systems Development Life Cycle approach¹⁴ and established a strong basis for the

¹³ Australian Government, Department of Finance and Deregulation, *Changes to the Australian Government's Regulation Impact Statement requirements*, <<http://www.finance.gov.au/obpr/proposal/changestorisrequirements.html>> [Accessed 29 February 2012].

¹⁴ A Systems Development Life Cycle is a model used in project management that describes the stages involved in an information system development project, from an initial feasibility study through to maintenance of the completed application.

SBSCH systems to reliably function as intended. Overall, the implementation of the SBSCH was effective, and industry stakeholder feedback to the ANAO is complimentary of the SBSCH, with it being considered a practical solution to the provision of a clearing house function. The ongoing operations of the SBSCH are well administered. The ICT systems supporting the SBSCH operate effectively and adequately protect funds transfers and the privacy of employer and employee information. Governance arrangements are appropriate to support the program and user surveys report high levels of satisfaction with the service, and reduced compliance costs.

21. Medicare Australia received \$16.1 million for the SBSCH and advised that it has used most of the funding allocated to design the system and operate the program.¹⁵ This expenditure combined with the low take-up raises issues about the cost-effectiveness of the service when compared to the budgeted cost. Medicare Australia's costing for the measure estimated that in 2011–12 there would be around 150 000 registered employers and over 2 million employee transactions, equating to a lower cost per transaction. However, the number of employers using the scheme as at 31 May 2012 was 24 397, considerably less than estimated. Employee transaction numbers are also much lower (561 010 as opposed to the 2.7 million estimated). As a consequence, and on the basis of the funding provided to Medicare Australia, the service has been considerably more expensive per transaction than expected.

22. Another point of comparison is the difference between the cost of services provided by the public sector and the fees charged by the private sector. Variations between the business models of private sector service providers and the SBSCH, and factors such as the average number of transactions per employer, mean that some caution needs to be exercised with comparisons.¹⁶ Nevertheless, the cost per employee transaction of the SBSCH (when calculated against the funding for the service), is in the order of seven times higher than similar services being provided by the private sector. This position warrants further consideration by Treasury and advice to the Government, given the significant differences in the estimates on which the Government decision was taken and the actual transaction volumes being

¹⁵ The 2009–10 funding of \$4 million was used in designing and implementing the information and communications technology system and associated staff costs. Subsequent funding of \$12.1 million for 2010–11 and 2011–12 has been used largely for operating costs and minor systems enhancements.

¹⁶ Since the inception of the SBSCH up until 31 May 2012, on average employers have made 3.5 Superannuation Guarantee contribution payments on behalf of 6.5 employees per payment.

achieved and related costs. It is also noteworthy that the take-up rate and the cost of the service are not reflected in performance measures or targets for the program. It would be appropriate for Treasury to expand its range of key performance indicators (KPIs) to assess the program's performance against these factors.

23. The ANAO has made two recommendations. The first is aimed at reviewing the program's funding arrangements and its regulatory and competition impacts. The second is aimed at improving the KPIs for the SBSCH to enhance focus on cost-effectiveness and take-up.

Key findings by Chapter

Program Design and Delivery (Chapter 2)

24. Following the announcement of the superannuation clearing house facility in the 2008–09 Budget, Treasury consulted publicly on how the clearing house facility should be delivered, regulated and kept within budget. It released a public discussion paper on 14 November 2008, calling for submissions by 19 December 2008. The majority of the 36 submissions received supported delivery of the clearing house through multiple private sector providers and pointed to a mature private sector clearing house market. There was strong support for SG obligations to be extinguished once payment had reached the clearing house.

25. On 3 April 2009, Treasury sought the agreement of the Minister for Superannuation and Corporate Law to a program delivery model involving contractual service agreements between the ATO and multiple commercial clearing house providers. Treasury addressed the prudential regulation risk, of clearing houses collapsing while holding SG contributions, by specifying that the providers would be required to hold an Australian Financial Services Licence. Treasury was also required to make an assessment of the need for a Regulation Impact Statement (RIS) to inform the Minister's decision. The requirements then in force required a RIS for proposals that were likely to have a significant impact on business and individuals or the economy.¹⁷

¹⁷ Australian Government, Department of Finance and Deregulation, *Changes to the Australian Government's Regulation Impact Statement requirements*, <<http://www.finance.gov.au/obpr/proposal/changestorisrequirements.html>> [Accessed 29 February 2012].

26. In responding to the election commitment for a clearing house facility, Treasury prepared a preliminary impact assessment in December 2007, and determined that the likely impacts were such that a RIS was not required. This assessment was made at an early stage when Treasury had little direct information about the private clearing house market and when the options for a delivery approach were still being considered. Subsequent public submissions showed that there was a mature private sector clearing house capability, and that a prudential supervision risk did exist. Both of these elements, along with the fact that Treasury was requesting a decision from the Government on the program design and delivery model, should have triggered a formal re-assessment of legislative and competition impacts in accordance with RIS policy.

27. Treasury's proposed service delivery model was not accepted by the Minister and Treasury began considering a new approach—contracting a single provider to provide the clearing house facility. On 9 April 2009, Treasury advised the ATO that it would be required to run a tender process to select a single provider for the clearing house service. In response, the ATO reiterated concern about the prudential regulation risk of private sector provision. On 19 June 2009, the ATO provided comments on an alternative approach: that the clearing house be government owned (an ATO function) and contracted out to a single provider.

28. Treasury began to consider a public sector provision model. In July 2009, Treasury advised the Minister that possible delivery agencies were a Government Business Enterprise and Centrelink. The ATO was not further considered as there were concerns that it did not possess the necessary technical capability. Treasury cited a greater level of financial security, with a reduced need for prudential regulatory controls, as advantages of public sector provision.

29. On 29 September 2009, Treasury recommended that the service be delivered through Medicare Australia, and be restricted to employers with less than 20 employees, in part to minimise the competition impact on the existing private sector market. The idea that the service would be provided through the public sector represented a significant change in the program design, and the prospect of competition impacts merited re-assessment of legislative and competition impacts in accordance with the Office of Best Practice Regulation's policy.

30. In November 2009, following consideration of the revised model, the then Minister for Financial Services, Superannuation and Corporate Law announced that Medicare Australia would be the provider of the SBSCH. Later that month an exposure draft of legislative amendments to support the superannuation clearing house facility was released for public comment. Ten submissions were received, raising concerns about: the impact of a free government service on competition in the private sector market; granting a government clearing house special legal status as an 'approved clearing house'; and flagging the need for consistent electronic data standards.

31. Treasury prepared a revised preliminary compliance cost assessment prior to the introduction of the Bill into Parliament. The Bill relating to the SBSCH was introduced into Parliament on 10 February 2010. On 15 March 2010, Treasury advised the Senate Economics Legislation Committee that it was appropriate for the clearing house service to be provided within the public sector, in view of the risk that would be created by private clearing house failure.¹⁸ The Committee noted Treasury's view and the Bill supporting creation of the SBSCH received Royal Assent on 3 June 2010.

32. The costing and the estimations which informed the Budget measure stated that it was expected to affect around 10 per cent of small business employees in 2009–10 and 15 per cent in 2010–11.¹⁹ Subsequent sensitivity analyses and estimation documents refer to the anticipated take-up by employers as 75 576 or 10 per cent of the estimated eligible population of 755 758 in the first year.²⁰ The estimated take-up rate informed system design, budget and the staffing resources required.

Implementation of the SBSCH (Chapter 3)

33. From the time it was announced as the provider of the SBSCH, Medicare Australia had about eight months to implement the SBSCH on 1 July 2010. This involved establishing a business process for an online

¹⁸ Commonwealth of Australia, The Senate, Economics Legislation Committee, *Tax Laws Amendment (2010 Measures No 1) Bill 2010 [Provisions]*, March 2010, <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Committees?url=economics_ctte/lab_1_2010/report/index.htm> [Accessed 19 April 2012].

¹⁹ <http://archive.electioncostings.gov.au/_data/assets/pdf_file/0004/64309/ALP122_Public_release_of_costing_-_Superannuation_Clearing_House.pdf> [Accessed 5 January 2012].

²⁰ Increasing by an additional 10 per cent of the eligible population in each of the next two years for a total take-up of 30 per cent of the eligible population after three years.

interface, electronic payment systems, management oversight, and stakeholder engagement. Medicare Australia adopted a project management approach to guide the implementation of the SBSCH. This approach incorporated:

- project planning documents that included a project schedule, risk management plan, budget, governance arrangements and a separate ICT implementation plan;
- project oversight provided by a steering committee;
- a risk management plan that identified key risks (in a risk register) and mitigation strategies;
- stakeholder engagement through two working groups with membership from superannuation funds, employer groups, Treasury and the ATO;
- monthly 'traffic light' project status reports that tracked the progress of project deliverables; and
- a project closure report that included a review of the risk register, noting that risks were either closed or transferred to an operational risk management plan.

34. ICT systems are fundamental to the effective operation of the SBSCH. ANAO analysis of Medicare Australia's ICT governance processes concluded that the SBSCH implementation adhered to project governance structures: standard ICT project management principles were documented and followed; third party work was documented and approved; and ICT testing strategies and change management controls were applied.

35. The program was delivered on time and under budget and went live on 1 July 2010. All project deliverables were complete, and Medicare Australia's Internal Audit conducted a post-implementation review of the project. External stakeholder feedback received by the ANAO was also complimentary of Medicare Australia's implementation of the SBSCH, particularly given the very short timeframe; and complimentary of the SBSCH itself, as an effective system for processing payments. Participants of the working groups interviewed by the ANAO agreed that Medicare Australia's stakeholder management during the implementation was good.

Ongoing Management of the SBSCH (Chapter 4)

36. The SBSCH is heavily reliant on ICT support to give employers online access to register for the SBSCH and to make payments, and for electronic payment distribution to superannuation funds. The ICT solution for the SBSCH utilises a web-based application, two servers (one as a back-up) and a database. ANAO examination of the SBSCH ICT system showed:

- comprehensive end-to-end process mapping and systems configuration documentation;
- compliance with the *Protective Security Policy Framework* and applicable *Information Security Manual* requirements²¹;
- a sound security framework, information transfer security controls, and access management controls. Security logging and user access logging for the database and the SBSCH application are in place; and
- data transfer mechanisms which operate effectively.

37. Some manual processes are used by the SBSCH for activities such as returns of payments²², checking compliance with the less than 20 employee limit, and a process called *Employer Spotchecks* that verifies if employers have registered with the SBSCH (rather than someone else using that company's Australian Business Number). These work effectively, although the recording of *Employer Spotcheck* results could be improved.

38. Internal service standards for the SBSCH have been consistently exceeded in all three areas measured: time taken to answer telephone calls; payment processing times; and customer feedback acknowledgment and resolution.²³ Medicare Australia conducts customer satisfaction surveys of SBSCH users. Results have been consistently positive, with 98 per cent of respondents either satisfied or extremely satisfied with the SBSCH service, and 96 per cent of respondents agreeing or strongly agreeing that the SBSCH has

²¹ The Australian Government's *Protective Security Policy Framework* requires government agencies to implement policies and procedures for the security classification and protective control of information assets (electronic and paper-based). The underlying procedures about ICT security are provided in the *Information Security Manual*.

²² Returns occur when contributions are paid to funds, but cannot be allocated for reasons such as member identification numbers being incorrect.

²³ The service standards are: 90 per cent of telephone calls answered within 30 seconds; 96 per cent of correctly made payments are processed within two working days; and 95 per cent of customer feedback is acknowledged and resolved within 10 days.

reduced the amount of time taken to make their SG payments. In addition, complaint numbers are low. For the period April 2010 to May 2012, the SBSCH received only 66 complaints, the majority relating to website login or password issues.

39. The level of take-up by employers is not a key performance indicator for the SBSCH, nor has a target been set. The assumption used for costing purposes was a take-up rate of employers registering in the first year of 75 576 (10 per cent of a total population of 755 758). A comparison of the actual number of employer registrations against the estimate shows that just 4 781 employers registered in 2010–11 (0.6 per cent of the population), and as of 31 May 2012 there were only 24 397 employers registered (just over 3 per cent of the population). The original costing estimated that 144 854 employers would have taken up the scheme by 31 May 2012.

40. In January 2010, the ATO's Revenue Analysis Branch estimated the base for the take-up rate to be much lower than that used in the original costing. The ATO considered employers with less than five employees would be unlikely to take advantage of the measure—reducing the potential population to 209 000. Medicare Australia's market research indicated that 67 per cent of respondents having between one to four employees considered themselves unlikely to use the SBSCH. This analysis suggests that the original estimates for take-up of the scheme were high, and that the current level of take-up may reflect actual levels of demand.

41. Between August and December 2011, Medicare Australia conducted a mail-out to promote take-up. The ATO held the address details for targeted employers, but due to information privacy principles could not transfer these to Medicare Australia. The ATO assisted Medicare Australia on a fee for service basis. Some 683 000 letters were sent out and the actual take-up was approximately 1.9 per cent.²⁴ Registrations increased from 5414 total registrations in the 14 months up to July 2011 to 16 952 registrations as at 31 November 2011, the final month of the four-month mail-out. On the basis of the success in increasing take-up levels, Medicare Australia and the ATO are planning another mail-out in mid-2012.

²⁴ The actual take-up cannot be calculated exactly, as registrations may have occurred from employers who were not included in the mail-out.

42. To establish and operate the SBSCH, Medicare Australia received \$16.1 million over the three years 2009–10 to 2011–12. Medicare Australia advised that it had allocated \$15.4 million (of the \$16.1 million appropriation to the SBSCH) for expenditure over the three years, notwithstanding the lower than anticipated take-up levels by employers, and lower consequent transaction volumes. As reported at 31 May 2012, total anticipated capital expenditure was around \$2.6 million, primarily on ICT systems. Operating expenditure, which was largely staffing costs, was reported as \$12.8 million at the same date.

43. As take-up has been low the full cost of providing the free service (electronic data transfers, information and assistance to customers) is relatively high when compared to fees for similar services in the private sector.²⁵ After one year of operation (as at 30 June 2011), the cost per employee transaction was \$62.²⁶ As the number of transactions processed has increased the cost per employee transaction has decreased but in May 2012 was still \$20.66.²⁷ As at 31 May 2012, on average each employer had lodged 3.5 SG contribution payments (24 397 employers made 86 522 employer lodgements) and each lodgement was on behalf of on average 6.5 employees (24 397 employers made payments on behalf of 159 037 employees).

44. Some caution needs to be exercised when making comparisons between the fees charged by the private sector and the costs of providing the full SBSCH service. However, there is a substantial difference between them. For the cost per employee transaction to reduce to levels similar to the fees charged by the private sector, take-up of the SBSCH would need to increase by around 120 000 employers. The objectives of the SBSCH are to provide a free service that supports small businesses by reducing their compliance costs. The SBSCH achieves these objectives for the employers using the service, but the cost-effectiveness of the service should be monitored and optimised.

²⁵ Private sector costs can range from \$0.40 to \$3.00 per employee transaction. These costs can be in addition to registration fees, or provided for a lesser fee when combined with additional services provided by private clearing houses (such as bookkeeping services), and can also reduce with a greater number of transactions. However, employers' SG obligations are not met when they are paid to private sector clearing houses, whereas their SG obligations are fulfilled once payments are received by the SBSCH.

²⁶ From 1 July 2010 to 30 June 2011 there were 96 600 transactions on behalf of employees, and the cost of the program had been \$6 million (excluding the \$4 million implementation costs in 2009–10).

²⁷ The calculation is based on the pro rata appropriation of \$11.6 million for the period 1 July 2010 to 31 May 2012, divided by the 561 010 payments made for employees in the same period.

Governance Arrangements Supporting the SBSCH (Chapter 5)

45. There is a Service Arrangement between Treasury and Medicare Australia that sets out each department's roles and responsibilities, and SBSCH reporting requirements. Treasury is responsible for all policy matters, while Medicare Australia is responsible for all service delivery matters. There is currently no formal agreement in relation to the SBSCH between Medicare Australia and the ATO, notwithstanding the ongoing engagement between the two agencies. A high-level Memorandum of Understanding is currently being negotiated and is expected to be finalised in late 2012.

46. Medicare Australia's corporate governance, risk management processes and reporting for the SBSCH are appropriate, with oversight by the Superannuation Programs Steering Committee. The SBSCH has been closely managed since it went live, and the Superannuation Programs Steering Committee discussed in June 2010 the need to establish target numbers for registrations, but no target was set. Within Medicare Australia, the key means of monitoring and reporting performance of the SBSCH is a monthly status report, provided to the Superannuation Programs Steering Committee. The report measures: outcomes against internal operational service standards²⁸; transactions such as numbers of registrations, enquiries and payments; and the feedback received from customer satisfaction surveys. These measures appropriately support monitoring of the program's operational achievements.

47. The Service Arrangement between Treasury and Medicare Australia specifies that Treasury is responsible for assessing the SBSCH's program performance. Broadly, the objectives of the SBSCH are to: provide a free service; reduce the 'red tape' and assist employers with meeting their Superannuation Choice obligations; and promote standardised information sharing and e-commerce. In measuring achievement against these objectives, there are no comparative assessments made between the SBSCH and private sector provision. There are no KPIs that address two key concerns of delivering a service—the cost-effectiveness and whether the service is meeting the needs of the target market (that is, the take-up rate).

²⁸ Each of these measures has a target against which performance is compared, for example, 98 per cent of payments are processed within two working days.

48. The Service Arrangement specifies three KPIs in relation to SBSCH reporting.²⁹ To meet the KPI on reporting, Medicare Australia provides a copy of its monthly status report to Treasury and the Minister for Financial Services and Superannuation. This data does allow the measurement of take-up and cost-effectiveness. There would be benefit in Treasury conducting a review of the program's KPIs to include an appropriate focus on cost-effectiveness and take-up levels.

Summary of agencies' response

49. The agencies' responses to each recommendation are included in the body of the report, directly following each recommendation. Agencies' general comments on the audit report are below.

Department of the Treasury

Treasury notes the ANAO's findings that the SBSCH provides a free superannuation clearing house service that is well administered and well regarded by the businesses that use it and the superannuation funds that receive contributions through it, meeting the primary objective of the program.

Treasury also notes that the clearing house program has been operating for less than two years and that, during that period, take up of the service has increased as a result of awareness raising initiatives undertaken by the Department of Human Services. Treasury expects that pending Government reforms in the superannuation area will have a further positive impact on take up of the program in coming years, leading to a reduction in the average cost of delivering the service.

Department of Human Services

The Department of Human Services (the department) welcomes the Australian National Audit Office findings that the design, development, and implementation of the Small Business Superannuation Clearing House (the Clearing House) was successful, that it continues to be well administered and that it consistently exceeds service standards. The audit acknowledges the excellent stakeholder relationship established with the Treasury during the implementation of the program and that the program is highly regarded by industry stakeholders and users of the system.

²⁹ The three KPIs are: provide management information reports (including a monthly report showing the number of registrations, payments and amounts); meet reasonable customer expectations; and move employees' money through the clearing house in a reasonable time.

The department agrees that caution should be exercised when making comparisons between fees charged by the private sector and the current costs per transaction for the Clearing House. The Clearing House is currently in its first two years of operation and has experienced increased take-up by small businesses following implementation of an awareness strategy. This increase is expected to continue and will significantly reduce the cost per transaction as more small businesses use the service.

The department agrees with both recommendations and will work with Treasury to implement them.

Australian Taxation Office

The ATO welcomes this review. We note the two recommendations directed to The Treasury and the Department of Human Services.

Recommendations

Recommendation Number 1

Para 4.59

The ANAO recommends that Treasury, in consultation with the Department of Human Services, review:

- (a) the program's funding arrangements, incorporating an assessment of actual and estimated take-up and the base level of resources required to deliver the scheme in a cost-effective manner; and
- (b) the regulatory and competition impacts of the scheme, where appropriate in the context of any future advice to the Government on reforms affecting the clearing house.

Treasury response: Agreed

DHS response: Agreed

ATO response: Noted

Recommendation Number 2

Para 5.43

The ANAO recommends that Treasury, in consultation with the Department of Human Services, revises the Service Arrangement relating to the Small Business Superannuation Clearing House Program to include appropriate key performance indicators for take-up and cost-effectiveness.

Treasury response: Agreed

DHS response: Agreed

ATO response: Noted

Audit Findings

1. Background and Context

This chapter provides the background and context for the audit, including an overview of the superannuation legislative environment. The audit objective is also outlined.

Introduction

1.1 Australia's retirement income system includes three major elements (also known as pillars):

- a publicly provided means tested age pension;
- mandatory private superannuation saving; and
- voluntary saving (including voluntary superannuation saving).³⁰

1.2 Superannuation is money set aside over a person's lifetime to provide for their retirement. It is a long-term vehicle for building retirement savings, and is a key element of the Government's policies to address the financial independence of Australia's ageing population. The objective of Australia's superannuation system is:

...to assist and encourage people to achieve a higher standard of living in their retirement than would be possible from the age pension alone, to ensure Australians have security and dignity in their retirement.³¹

1.3 Under the *Superannuation Guarantee (Administration) Act 1992*, all workers aged between 18 and 69 (inclusive) who earn \$450 or more (before tax) in a month must have a minimum of nine per cent of their ordinary time earnings contributed to superannuation by their employer to enable them to receive some superannuation benefits in retirement.³² These contributions are

³⁰ Department of Treasury, 'Towards Higher Retirement Incomes for Australians: A History of the Australian Retirement Income System Since Federation', *Economic Roundup Centenary Edition*, Australian Government Publishing Service, Canberra, 14 May 2001, <<http://archive.treasury.gov.au/documents/110/PDF/round4.pdf>> [Accessed 24 April 2012].

³¹ Explanatory Memorandum to the *Tax Laws Amendment (Simplified Superannuation) Bill 2006*, p. 200.

³² Ordinary time earnings are the employee's ordinary hours of work. On 1 July 2013 this will change, as per the *Superannuation Guarantee (Administration) Amendments Act 2012*, which received Royal Assent on 29 March 2012. The contribution rate will increase from nine per cent to 12 per cent between 1 July 2013 and 1 July 2019. The age limit of 69 will be removed from 1 July 2013, and employers will be required to contribute for employees aged 70 and older.

in addition to salary or wages. This is known as the 'Superannuation Guarantee' (SG).³³

Superannuation Guarantee

1.4 The Australian Taxation Office (ATO) is responsible for the administration and regulation of employers' SG obligations under the *Superannuation Guarantee (Administration) Act 1992*. Payments have to be made at least four times a year. The cut-off dates for payments are 28 days after the end of each quarter.

1.5 Employers must self-assess their level of compliance with SG. If employers do not pay the minimum amount into the correct fund by the due date they must lodge a superannuation guarantee charge statement and pay a superannuation guarantee charge. This charge equals the amount of shortfall in superannuation that needs to be paid for the employee, plus interest at 10 per cent, and an administration fee of \$20 per employee per quarter.

Choice of superannuation funds

1.6 On 1 July 2005, amendments to superannuation legislation, commonly known as 'Choice of Funds', came into effect.³⁴ The amendments required employers to provide eligible employees with the opportunity to choose a superannuation fund to which their SG contributions would be credited. As a consequence, additional administrative demands could be imposed on employers who were required to make payments into multiple superannuation funds on behalf of their employees.

1.7 In response, 'clearing house services' emerged in the superannuation industry. These clearing houses receive a single aggregated superannuation contribution payment from an employer, and distribute each employee's contribution to the relevant superannuation fund—consistent with the employer's instructions. Making a single payment to a clearing house can be more administratively efficient for the employer when compared to making

³³ Australian Taxation Office, *Guide to Superannuation for Individuals—Overview*, 2011, <<http://www.ato.gov.au/content/00250233.htm?headline=SuperEssentials&segment=Individuals>> [Accessed 24 April 2012].

³⁴ The amendments were introduced in the *Superannuation Laws Amendment (Choice of Superannuation Funds) Act 2004*, with a commencement date of 1 July 2005.

multiple payments to a number of funds—especially where an employer is moving away from a manual process, such as paying by cheque.

Government-supported clearing house policy

1.8 In 2007, the then Opposition made an election commitment to reduce the administrative burden and ‘red tape’ imposed on businesses, particularly small businesses, by introducing a free superannuation clearing house.³⁵ The 2008–09 Federal Budget subsequently included a measure to establish a superannuation clearing house facility. The budget measure stated:

The Government will provide \$16.1 million over three years to the Australian Taxation Office to fund a superannuation clearing house facility from 2009–10, to assist in managing employers' obligations to provide superannuation choice to employees.

This facility will be offered free of charge by the Australian Government to small businesses with fewer than 20 employees and on a fee-for-service basis to larger businesses. The facility will be contracted to the private sector.³⁶

1.9 The ATO was to receive \$4.0 million in 2009–10, \$6.0 million in 2010–11 and \$6.1 million in 2011–12 to meet private sector contractor payments. Under the measure, the ATO would not receive any additional funding for departmental administration. The funding was calculated on an assumed 10 per cent take-up rate in the first year from a small business population of 722 580.³⁷

1.10 An additional benefit of using the government-supported superannuation clearing house was that an employer's SG obligation would be discharged when payments were received by the clearing house. Employers using private sector clearing houses need to allow sufficient time for their superannuation contributions to be received, processed and paid by the clearing house to the superannuation fund, before their SG obligation is discharged.

³⁵ Australian Labor Party Media Statement, *Real Action to Cut Red Tape*, 10 May 2007, <<http://pandora.nla.gov.au/pan/22093/20071005-1425/www.alp.org.au/media/0507/msloosbicsuif100f0b6.htm>> [Accessed 26 April 2012].

³⁶ Commonwealth of Australia, *Budget Paper 2*, 2008–09, p. 290.

³⁷ Small businesses were defined as those with less than 20 employees. Treasury's funding assumptions are discussed in more detail in Chapter 2. The estimate of the size of the small business population had minor fluctuations, also discussed in Chapter 2.

1.11 Treasury was responsible for the design of the superannuation clearing house program and engaged with stakeholders (including the superannuation industry) to seek views on implementation options. Within this context, the then Minister for Superannuation and Corporate Law released the *Superannuation Clearing House and the Lost Members Framework* discussion paper through the Treasury website in November 2008.³⁸

1.12 The discussion paper sought feedback from the public and industry on: how the facility should be delivered through the private sector; how the private sector should be regulated to protect employee superannuation contributions; and management of the cost of the measure. Submissions made in response to the paper provided Treasury with additional perspectives on the issues raised, and provided new insights into the complexities of providing a government-supported clearing house through the private sector.

1.13 On 6 November 2009, the Government announced that a free online superannuation clearing house service for small business—the Small Business Superannuation Clearing House (SBSCH)—would be delivered through Medicare Australia rather than the ATO or the private sector. The Government considered Medicare Australia to be well placed to deliver the SBSCH as it was a key service delivery agency ‘with significant electronic and payment processing capacity whilst ensuring the privacy of information and the security of funds’.³⁹ The SBSCH was to be funded through the \$16.1 million allocated in the 2008–09 Budget, and would be available from July 2010 for small businesses with less than 20 employees. The \$16.1 million in funding was transferred from the ATO to Medicare Australia as a departmental appropriation. The clearing house was not to be available to larger businesses as the Government’s focus was on assisting small business ‘while also seeking

³⁸ Treasury, *Discussion Paper—Superannuation Clearing House and the Lost Members Framework*, November, 2008 <<http://archive.treasury.gov.au/contentitem.asp?ContentID=1442&NavID=>> [Accessed 24 April 2011].

³⁹ Minister for Financial Services, Superannuation and Corporate Law, the Hon. Chris Bowen, 6 November 2009, Joint Media Release No.035, *Cutting Red Tape for Small Business — Superannuation Clearing House Service*. <<http://mfsscl.treasurer.gov.au/DisplayDocs.aspx?pageID=003&doc=../content/pressreleases/2009/035.htm&min=ceba>> [Accessed 19 April 2012].

to minimise the impacts of the measure on competition in the existing clearing house market'.⁴⁰

1.14 Following the announcement in November 2009, that Medicare Australia would be responsible for the SBSCH, the agency had about eight months in which to implement the SBSCH if it was to be available as planned, from 1 July 2010.

The Small Business Superannuation Clearing House

1.15 The objectives of the program are to: provide a free service; reduce time and paperwork burdens; assist employers to make SG payments; promote standardised information sharing; and encourage take-up of e-commerce. The SBSCH is provided as an online service, and uses e-commerce channels for transactions.⁴¹ Employees complete a form to select their preferred superannuation fund.⁴² Employers self-register through an online portal and enter their business and nominated employees' details. This process incorporates an automated lookup with the Australian Business Register. Periodically, usually quarterly, employers make superannuation payments to a special account in the Reserve Bank of Australia and send an accompanying contribution statement to the SBSCH. When the details of payments in the contribution statement are verified, the SBSCH issues a pay authority to the Reserve Bank of Australia, which then transfers funds to employees' superannuation funds. Unverified payments are returned to employers, who are advised of the returns. Medicare Australia also runs a helpdesk call centre to assist SBSCH users. This business process is illustrated in Figure 1.1.

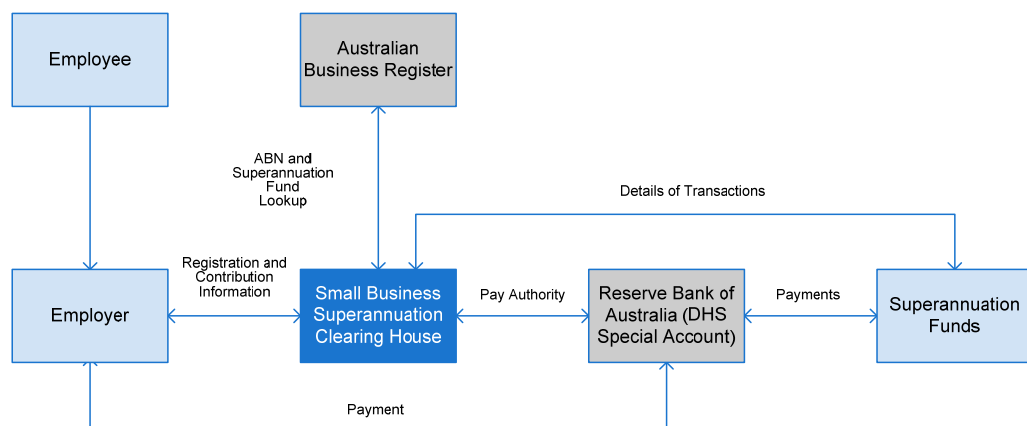
⁴⁰ Minister for Financial Services, Superannuation and Corporate Law, the Hon. Chris Bowen, 6 November 2009, Joint Media Release No.035, *Cutting Red Tape for Small Business — Superannuation Clearing House Service*. <<http://mfsscl.treasurer.gov.au/DisplayDocs.aspx?pageID=003&doc=../content/pressreleases/2009/035.htm&min=ceba>> [Accessed 19 April 2012].

⁴¹ Electronic commerce, commonly known as e-commerce, is the buying and selling of products or services over electronic systems such as the Internet. E-commerce uses technologies such as electronic funds transfer and online transaction processing.

⁴² The *Standard Choice Form* is available for download from the ATO website, <<http://www.ato.gov.au/corporate/content.aspx?doc=/content/56761.htm>> [Accessed 14 February 2012]. Employers also complete this form if they have employees who are eligible to choose a superannuation fund, or if they change their employer-nominated superannuation fund.

Figure 1.1

High level business process for the Small Business Superannuation Clearing House



Source: ANAO adaptation of Medicare Australia diagram.

1.16 From its inception until the end of June 2011, the SBSCH was provided by Medicare Australia. From 01 July 2011, Medicare Australia was integrated into the Department of Human Services (DHS).⁴³ For the purpose of this audit, reference is made to Medicare Australia, acknowledging the integration of Medicare Australia into DHS on 1 July 2011.

1.17 The project to implement the SBSCH was managed by the New Business Projects Section within the Government–Business Delivery Branch of Medicare Australia. When the program became operational in July 2010, the management of the clearing house became the responsibility of the Government–Industry Branch. The implementation project team continued to provide support to the program with ongoing enhancements to the electronic clearing house system. From 1 July 2011, the SBSCH has been managed by the Government Business Branch, in the Business Services Division of DHS. Twenty-six full time equivalent (FTE) staff were allocated to the program in 2011–12.

⁴³ On 1 July 2011, the *Human Services Legislation Amendment Act 2011* integrated the services of Medicare Australia and Centrelink into the Department of Human Services.

1.18 The Government agencies involved in the administration of the SBSCH are:

- Treasury—provides advice and assists in the formulation and implementation of superannuation policies and legislation.⁴⁴ It is responsible for all policy matters in relation to the SBSCH, and for assessing performance against the Government’s objectives.
- Medicare Australia—delivers a range of health, social and welfare payments and services, including the SBSCH.⁴⁵
- the ATO—the agency initially identified in the budget measure to administer the clearing house services. The ATO was a member of a working group⁴⁶ during the implementation of the SBSCH, and is responsible for SG legislation and compliance.

Industry stakeholders

1.19 Industry stakeholders with an interest in the clearing house, and consulted by Medicare Australia during the SBSCH implementation include:

- peak bodies such as the Association of Superannuation Funds of Australia and the Financial Services Council;
- stakeholder representatives such as the Council of Small Business Organisations of Australia, Self Managed Superannuation Funds Professionals’ Association of Australia Limited, and CPA Australia;
- superannuation funds and administrators; and
- other stakeholders such as software developers.

Current industry demographics

1.20 The SBSCH operates within a broader context of commercial interests, including those of employers, superannuation funds, and other superannuation clearing houses. Take-up of the SBSCH service is optional, and

⁴⁴ <http://www.treasury.gov.au/content/about_treasury.asp?ContentID=316&titl=About%20Treasury> [Accessed 6 February 2012].

⁴⁵ <<http://www.humanservices.gov.au/corporate/about-us/>> [Accessed 6 February 2012].

⁴⁶ The Superannuation Clearing House Working Group is one of two working groups established for the project by Medicare Australia. The working group provided advice relating to the design and implementation of the SBSCH (as discussed in Chapter 3).

it is targeted at small businesses—those that employ less than 20 staff.⁴⁷ As of June 2011, there were 739 312 businesses in this category.⁴⁸

1.21 Superannuation funds are broadly categorised under the *Superannuation Industry (Supervision) Act 1993* into those regulated by the Australian Prudential Regulation Authority (APRA) and Self-Managed Superannuation Funds, which are regulated by the ATO. As at June 2011, there were 446 601 superannuation funds that could receive contributions through the SBSCH, the majority of which are self-managed funds with less than five members each (442 528). The other superannuation funds, regulated by APRA, include: corporate funds (143); retail funds (143); pooled superannuation trusts (77); industry funds (61); public sector funds (39); and small funds (3610).⁴⁹ These funds can have many thousands of members each and are registered with the SBSCH in order to receive contributions on behalf of their members.

1.22 A number of commercial entities offer services similar to the SBSCH. In February 2010, the ATO estimated there were around 10–20 entities, with possibly half of these having direct links to a superannuation fund. The number of providers is difficult to quantify, as the term ‘clearing house’ is not consistently used in the industry to describe the services offered. This type of service is provided by a range of private sector entities, that include:

- software providers—offer direct services to employers, and are also used by other parties such as payroll service providers and superannuation funds offering clearing house services;
- specialist clearing house services—provide services to businesses of all sizes;
- financial institutions—either provide the service themselves, or act as an intermediary between the employers and the clearing house;
- superannuation funds—offer a clearing house service as part of their package to employers; and
- payroll service providers—clearing house services can be offered as part of a broader payroll service or software package.

⁴⁷ An employee is defined as an individual who is employed on a full-time, part-time or casual basis.

⁴⁸ Australian Bureau of Statistics, *Counts of Australian Businesses, including Entries and Exits*, June 2007 to June 2011, released 31 January 2012.

⁴⁹ Small funds are APRA regulated, but have less than five members. APRA, *Statistics—Annual Superannuation Bulletin*, June 2011 (issued 29 February 2012), p. 26.

1.23 In some cases these services are free, but they are generally provided at a cost, and fees vary depending on factors such as the number of transactions undertaken and other services the employer may be using from that provider. Clearing house services may be provided for free as part of a commercially offered package, to attract employers to choose that superannuation fund provider as a nominated or 'default' fund, where the employee does not exercise choice of fund. Examples of commercial fee arrangements are:

- free, or free to employers with less than 20 employees (although this may be in conjunction with a fee for some other type of service);
- \$3 per employee per quarter;
- \$85 once only registration fee, and 40 cents per transaction;
- a once-only setup fee of \$59.95, an annual licence fee of \$59.95 and 46 cents fee for each transaction; or
- free if the superannuation fund is specified as the employer's default fund, and if 80 per cent of contributions go to that fund.⁵⁰

Future developments—Stronger Super reforms

1.24 In December 2010, the Government announced its 'Stronger Super' reforms in response to the recommendations of a review into the governance, efficiency, structure and operations of Australia's superannuation system (known as the Cooper Review).⁵¹ Following consultations with industry stakeholders, the Government announced its decisions on key design aspects of the Stronger Super reforms in September 2011.⁵² The key components are uniform data standards, use of tax file numbers as a key identifier of member accounts and the increase in e-commerce.

⁵⁰ These examples were obtained from the ANAO's review of the market, and analysis of submissions to the *Superannuation Clearing House and the Lost Members Framework* discussion paper.

⁵¹ Minister for Financial Services and Superannuation, the Hon. Bill Shorten, 16 December 2010, Media Release No.024, *Government Super Reforms Mean More Money in Retirement*, <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2010/024.htm&pageID=003&min=brs&Year=&DocType=>> [Accessed 19 April 2012].

⁵² Minister for Financial Services and Superannuation, the Hon. Bill Shorten, 21 September 2011, Media Release No.131, *A Better Deal for Superfund Members*, <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2011/131.htm&pageID=003&min=brs&Year=&DocType=>> [Accessed 19 April 2012].

1.25 The adoption of data standards is intended to increase automated processing of transactions; improve efficiency; provide an easier system for employers to use; ensure fewer lost accounts; and result in more timely flow of money to members' accounts. There are currently no mandated data or transmission requirements for transactions within the superannuation system.

1.26 The introduction of data and e-commerce standards raises implementation issues for small employers. Treasury, on its website, affirms that, 'smaller employers will be able to utilise the free services offered by the Medicare Australia Small Business Superannuation Clearing House to streamline their processing'. This policy development points to a potential increased demand for the SBSCH. The SBSCH is recognised by stakeholders as having already minimised system inefficiencies through a uniform data standard (not necessarily the same as that to be mandated for the industry as a whole) and the electronic processing of transactions to the greatest extent possible, in anticipation of the Government's reforms.

1.27 The proposed phased implementation timeline for the data and e-commerce standards is as follows:

- July 2012: data standards published and available for use by funds (voluntary uptake);
- July 2013: data standards and use of e-commerce becomes mandatory for APRA regulated funds and Self-Managed Superannuation Funds;
- July 2014: data standards and use of e-commerce becomes mandatory for large and medium employers making contributions; and
- July 2015: proposed application of data standards and use of e-commerce to small employers.⁵³

Audit objective, criteria and scope

Objective

1.28 The objective of the audit was to assess the effectiveness of the implementation and administration of the Small Business Superannuation Clearing House.

⁵³ Commonwealth of Australia, *Stronger Super Information Pack*, 21 September 2011, p. 11, <http://strongersuper.treasury.gov.au/content/publications/information_pack/downloads/information_pack.pdf> [Accessed 26 April 2012].

Criteria

1.29 The audit examined whether the SBSCH's:

- program design and implementation strategy was appropriate and effective;
- administrative arrangements are effective and meet regulatory requirements;
- information and communication technology (ICT) systems are effective, provide for the secure electronic transfer of funds and protect the privacy of employers' and employees' information; and
- governance arrangements support operations, and performance reporting.

Scope

1.30 The audit examined the involvement of Treasury, DHS and the ATO in the design, implementation and subsequent operation of the SBSCH.

Audit approach

1.31 The ANAO examined documentation and interviewed staff at: Medicare Australia in Canberra and Melbourne; Treasury; and the ATO in Canberra and Adelaide. Quantitative and qualitative analysis of the systems, processes and controls that Medicare Australia uses to administer the SBSCH was also undertaken. A range of external stakeholders were consulted, including representatives from employer groups and the superannuation industry. In addition, the ANAO tested the ICT systems that directly support the delivery of the SBSCH service.

1.32 The audit has been conducted in accordance with ANAO's auditing standards at a cost of approximately \$382 754. The audit fieldwork was conducted mostly between November 2011 and January 2012.

Acknowledgements

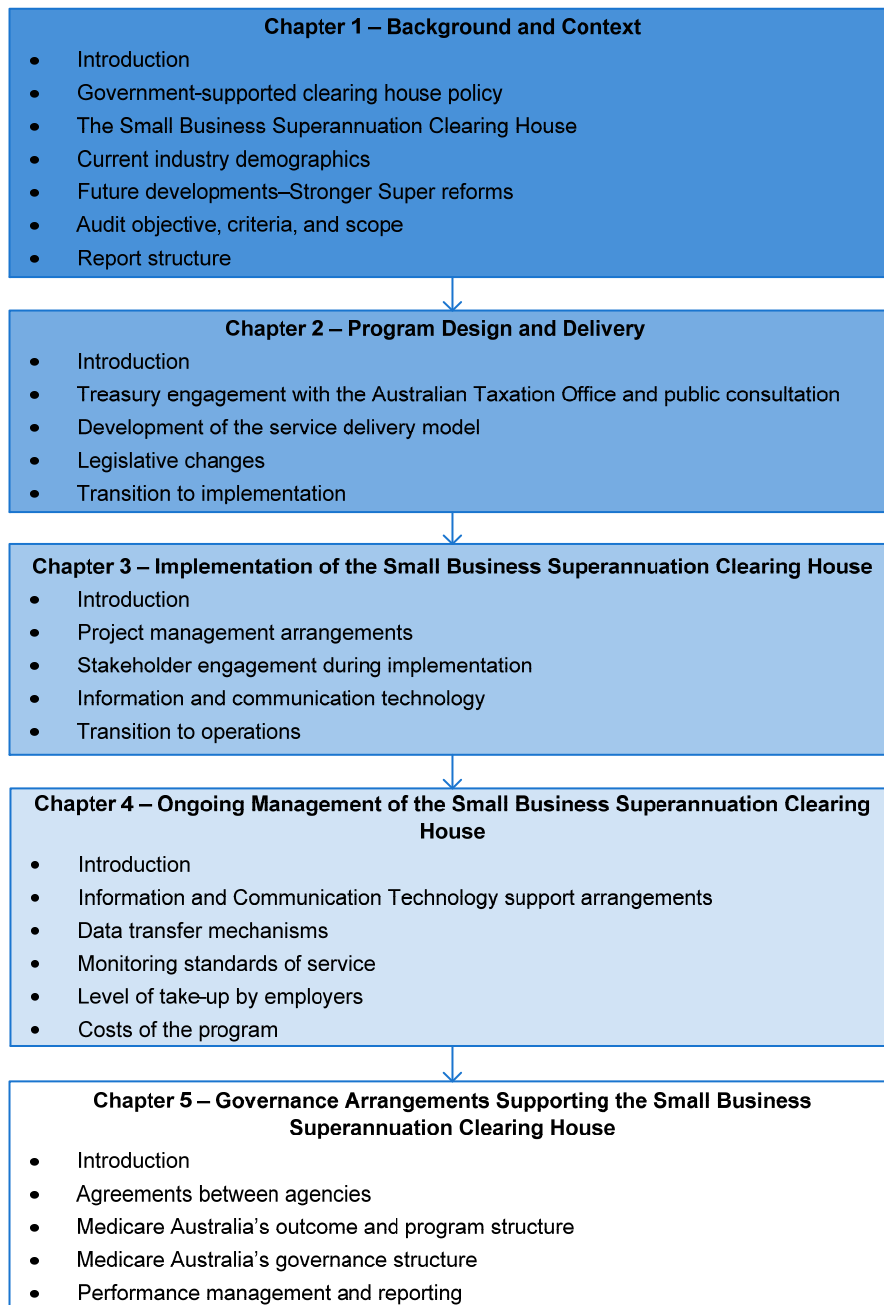
1.33 The ANAO appreciates the contribution of the staff of DHS, Treasury and the ATO, as well as external stakeholders who assisted in the conduct of the audit.

Report structure

1.34 Figure 1.2 outlines the structure of the report.

Figure 1.2

Report structure



2. Program Design and Delivery

This chapter examines the design of the program parameters for the SBSCH, and the process by which Medicare Australia was selected as the program provider.

Introduction

2.1 Clearly specifying a program's parameters and knowing how it will be delivered before implementation commences are critical to the future success of any government program. Consideration of the costs, benefits, risks and opportunities of possible options and any barriers to implementation increase the likelihood of the program's objectives being achieved. Engaging stakeholders at an early stage can also help to get the program design right as well as identify barriers to implementation.⁵⁴

2.2 The question of how the Government's policy was to be delivered was not addressed in detail by Treasury prior to the announcement of the superannuation clearing house facility in the 2008–09 Budget. Following the announcement of the Budget measure, Treasury (as the responsible policy agency) needed to design the program in consultation with the ATO—the agency announced in the measure as being responsible for managing the superannuation clearing house facility through private sector providers. The ANAO examined the approach taken by Treasury to design the SBSCH program and delivery model, including:

- the measures taken to clarify and develop the program parameters, including consultation with stakeholders;
- the activities of Treasury and the ATO to design a delivery model for the program, and the advice Treasury provided to the Government on delivery models and policy issues that arose from the various options proposed;
- legislative changes; and
- Treasury's management of the transition to implementation.

⁵⁴ ANAO Better Practice Guide, *Implementation of Programme and Policy Initiatives*, October 2006, p. 7.

Treasury engagement with the Australian Taxation Office and public consultation

2.3 The policy for the superannuation clearing house facility was defined in broad terms at the time it was announced in the 2008–09 Budget. It was flagged that a public consultation process would need to be undertaken to inform an implementation approach.⁵⁵ In developing a public discussion paper Treasury also had access to advice from the ATO about service delivery options for the measure. In May 2008, the ATO advised that private sector provision of clearing house services would be possible.⁵⁶ While recognising that the use of multiple private sector clearing houses ‘would have less impact on what is currently happening in the market’ and would allow market-based forces to work by providing employers with ‘choices about which clearing house to use’, the ATO preferred a single private sector provider for administrative efficiency reasons.

2.4 The ATO provided further advice to Treasury in June 2008 outlining its concerns about service delivery issues associated with the options being considered by Treasury for using private sector providers. These included:

- the basis for the ATO to ‘approve’ or ‘not approve’ a clearing house;
- the administrative costs associated with this approach;
- whether the costs of the measure would be limited to the funding provided in the Budget;
- proposed methods of ensuring that an employee’s entitlements were protected after they were paid to a clearing house if a private clearing house was to fail; and
- the perceived need for a later start date than the planned 1 July 2009, to allow the ATO, clearing houses and employers to prepare for the changes.⁵⁷

⁵⁵ Minister Sherry, Minister for Superannuation and Corporate Law, Media Release No. 22, *\$16M for Super Clearing House to Slash Business Red Tape*, 13 May 2008, <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2008/022.htm&pageID=003&min=njs&Year=2008&DocType=0>> [Accessed 25 August 2008].

⁵⁶ This confirmed advice given by the ATO in November 2007 that private sector provision would be preferable to public sector provision through the ATO.

⁵⁷ The deadline for the project was eventually extended so that the clearing house service would be available to small business by the end of 2009–10.

2.5 Treasury released a discussion paper on its website on 14 November 2008 seeking public submissions on how the superannuation clearing house facility should be delivered by the private sector, regulated and kept within budget.⁵⁸ Delivering the service through the public sector was not part of the Budget measure. Consequently, the call for submissions did not request comments on the option of having a public sector agency fulfil the clearing house role. This is relevant in light of subsequent events. The period given for the public to provide submissions was just over a month, with submissions closing on 19 December 2008. Treasury received 36 submissions from stakeholders in the superannuation and payment clearing industries.⁵⁹

2.6 The ANAO reviewed these submissions, which were in response to the four broad issues raised in the discussion paper: single provider versus multiple provider model; SG obligations; regulatory framework; and funding arrangements. Table 2.1 summarises the submissions.

⁵⁸ Treasury, *Discussion Paper—Superannuation Clearing House and the Lost Members Framework*, November, 2008, <<http://archive.treasury.gov.au/contentitem.asp?ContentID=1442&NavID=>> [Accessed 24 April 2011].

⁵⁹ Stakeholders included superannuation funds and fund administrators, clearing houses, peak bodies, software providers, payroll services, consultants and professional accounting bodies.

Table 2.1**ANAO summary of public consultation submissions—December 2008**

Issue	ANAO Analysis
Single clearing house provider versus multiple provider model	<p>The majority (21) of submissions advocated funding multiple providers to reduce the competitive impact on existing providers, and there was strong support for greater standardisation of transaction flows and adoption of electronic payment methods. Seven submissions favoured a single provider and eight gave no preference.</p> <p>Of the 36 submissions, five stated that the measure would not benefit small employers (or would better help medium-sized businesses) or would mainly benefit fund administrators through easier processing of contributions. Others recommended alternatives, such as promoting e-commerce that would facilitate the direct transfer of contributions between employers and funds.</p>
Superannuation guarantee (SG) obligations: <ul style="list-style-type: none"> • respective responsibilities; and • time limits for forwarding contributions 	<p>Submissions were mixed, with strong support (18) for small businesses to be able to extinguish their SG obligations on payment to a clearing house, provided employers had supplied all relevant information. However, six submissions favoured retaining the current requirement that an employer's SG obligation is only met when contributions are received by the superannuation fund, in order to protect employee entitlements. Five submissions did not express a strong view for either model, and seven did not answer the question.</p> <p>There were also mixed views in relation to the timeframe for processing contributions. Some submissions favoured retaining the current 28 day limit to get contributions to the funds in order not to diminish employee entitlements. Others argued that as the measure is intended to reduce the burden on small business, the current 28 day limit should be applied to receipt by the clearing house.</p>
Regulatory framework	<p>Where a comment was provided (12 submissions did not comment), the majority of submissions favoured maintaining the existing requirement for an Australian Financial Services Licence, but eight wanted stronger prudential regulation to protect employees if the clearing house was to be the point at which the employer's SG obligation was satisfied.</p>
Funding arrangements	<p>Three submissions stated that the clearing house should be available for all employers, or that it should be extended to medium employers (20–500 staff) as they suffer most from Superannuation Choice. Five submissions stated that the Government should not subsidise clearing houses at all, but spend the monies on providing other solutions such as promoting direct e-commerce. Statements were made that transactions in the private sector are generally free or very cheap for employers—if a charge is made, it may range from \$0.46 per transaction to \$3 per employee per quarter, regardless of transaction number.</p>

Source: ANAO analysis of the 36 submissions received by Treasury.

2.7 Submissions generally demonstrated existing industry capability and readiness to provide government-funded superannuation clearing house services. Industry concerns were raised relating to regulation, but these were not seen as presenting an insurmountable barrier. Treasury provided a review

of submissions to the Minister for Financial Services and Superannuation on 23 March 2009. Overall, Treasury's review reflected the content of submissions.

Development of the service delivery model

Follow-up to public consultation

2.8 Following the public consultation process, Treasury continued to develop the superannuation clearing house facility delivery model. The ATO, as the agency initially responsible for implementing the measure, worked closely with Treasury to clarify issues around its design and practical service delivery aspects. The ANAO examined the series of formal advices from the ATO to Treasury, as well as other interactions between the two agencies, in the period February 2008 to December 2009.

2.9 While the ATO had been consulted on the discussion paper before its release, it provided further comments to Treasury on the paper on 4 February 2009.⁶⁰ The ATO raised concerns regarding the proposed prudential regime that saw the transfer of SG obligations from employers to clearing houses prior to the distribution of contributions to nominated superannuation funds. The ATO advised Treasury that the model described in the discussion paper was not the appropriate way to proceed.

2.10 The key issue, from the ATO's perspective, was that employees may not have adequate remedies against their employer once the employer paid their superannuation contributions to a clearing house if a private clearing house was to fail. The ATO considered that clearing houses should be subject to the same prudential regime as superannuation funds. It sought the opportunity to discuss a new approach with Treasury, which would be simpler to administer, and ensure, in the ATO's view that employees' rights and remedies were protected.

2.11 Treasury, in an Executive Minute to the Minister for Superannuation and Corporate Law on 3 April 2009, sought the Minister's 'agreement to an approach to implementing the superannuation clearing house measure, consistent with the Government's 2007 election commitment and 2008–09 Budget announcement'. The approach involved establishing service agreements between the ATO and commercial clearing house providers,

⁶⁰ This was after the period for public submissions had closed.

pursuant to which the providers would be required to meet certain criteria, including that the provider holds an Australian Financial Services Licence and be subject to service obligations (including minimum service standards) and penalties for non-compliance. Treasury advised that the proposed approach would:

have the advantage of leveraging existing industry capacity in this area while minimising disruption to competition in the provision of clearing house services and entail minimal changes to the SG legislative framework.

2.12 In its Executive Minute, Treasury addressed the risk, identified by the ATO, that a clearing house may default on the payment of potentially large amounts of employee superannuation entitlements. Treasury noted that features of the proposed approach mitigated the risk, without the need for a costly prudential supervision regime for clearing houses.⁶¹ It advised the limited funding available for the measure (\$16.1 million over three years) was not sufficient to support a full prudential regulation regime, if this were to be pursued. The option was provided to the Minister to review the policy feature relating to discharging employers' SG obligations at the point the contributions were received by the clearing house, if the level of risk to employee superannuation entitlements was considered too high.

2.13 In view of the impacts of the proposed government approach on commercial clearing house providers, Treasury was expected to follow the Office of Best Practice Regulation's policy relating to consideration of legislative and competition impacts. This required Treasury to make an assessment of the need for a Regulation Impact Statement (RIS) to inform the Minister's decision. The RIS requirements then in force required a RIS for proposals that were likely to have a significant impact on business and

⁶¹ Such features of the proposed approach included:

- the requirement for the clearing house to hold an Australian Financial Services Licence and for contributions to be held in a separate trust account (additional restrictions could be imposed over how these monies could be invested);
- the short turnaround time for contributions (within 48 hours) which reduced the risk of superannuation monies being lost in the event of fraud or insolvency; and
- a minimum capital requirement (which could be in the form of a guarantee) set as a condition of registration—that would provide a greater level of confidence in a clearing house by demonstrating a level of financial commitment and substance.

individuals or the economy.⁶² Agencies were required to prepare a preliminary assessment of the likely level of a proposal's impact on compliance costs and competition. If self-assessment indicated the proposal was likely to have no or low impact, agencies were not required to prepare a RIS.

2.14 In the context of responding to the election commitment for a clearing house facility, Treasury conducted a preliminary impact assessment for the multiple private sector provider model in December 2007, and determined that likely legislative impacts did not require a full RIS assessment. This assessment was made before the public consultation process, and when Treasury had less information about the existing private sector market. Treasury had a further opportunity to prepare another preliminary impact assessment before its April 2009 advice to the Minister. In light of the existence of a mature private market for clearing house services and comments received in response to the discussion paper, Treasury could have also considered producing a RIS to support its submission to the Minister.

Development of a single provider service delivery approach

2.15 Treasury's proposed service delivery approach was not accepted by the Minister, and on the basis of feedback received from the Minister's office, Treasury began to consider a new potential service delivery approach. The new approach involved contracting a single provider for the clearing house facility, with the clearing house eventually evolving into a 'contributions hub' concept through which all superannuation contributions would be channelled. On 9 April 2009, Treasury forwarded a revised service delivery approach to the ATO that required the ATO to run a tender process to select a single provider to perform a clearing house service.

2.16 In response to this new approach, the ATO reiterated its concern about the previously identified prudential regulation issues, and the reduced level of protection over compulsory superannuation for employees, and proposed to further examine the costs and benefits of adopting the Australian Securities and Investments Commission's (ASIC) Australian Financial Services licensing regime compared to APRA's prudential regulation. The ATO's response also points to its concern about the level of funding available for service delivery.

⁶² Australian Government, Department of Finance and Deregulation, *Changes to the Australian Government's Regulation Impact Statement requirements*, <<http://www.finance.gov.au/obpr/proposal/changestorisrequirements.html>> [Accessed 29 February 2012].

2.17 On 12 May 2009, the ATO provided the advice about ASIC and APRA regulatory options. On 9 June 2009, Treasury and the ATO held a teleconference to discuss an alternative service delivery approach: that the clearing house be government-owned (an ATO function) and contracted out to a single service provider—a ‘government-badged model’. In response, in a minute dated 19 June 2009, the ATO noted significant design and funding issues, including its ability to deliver within the allocated funding and that the implementation of its major Change Program would make further ICT projects difficult to resource.⁶³

2.18 Treasury advised the ANAO that during this period, and against the background of a shift towards a single provider model, it began to consider a public sector provider model. In an information briefing in July 2009 for the new Minister for Financial Services, Superannuation and Corporate Law, Treasury noted that while still considering the private sector would provide the clearing house services, it was also exploring public sector options. Treasury advised that possible delivery agencies were a Government Business Enterprise and Centrelink.⁶⁴ The option of using the ATO as the clearing house provider was not further considered as there were concerns that the ATO did not possess the necessary technical capability, and acquiring this capability would require a significant cost in ICT system ‘build’. Treasury cited a greater level of financial security with a reduced need for regulatory controls as the advantages of public sector provision of the service compared to contracting out to the private sector. This would also provide the Government with greater flexibility to enhance the role of the clearing house in the future.

2.19 In late August 2009, DHS (including Medicare Australia) and Treasury met. At this meeting, Treasury was advised that Medicare Australia was better placed to deliver the clearing house service than Centrelink, based on their existing business model and expertise in bulk processing of financial transactions.

2.20 On 29 September 2009, Treasury provided a further Executive Minute to the Minister recommending that the superannuation clearing house facility

⁶³ The ATO's Change Program was a major project that ran from 2004 to 2010, and consisted of a series of releases to replace tax processing ICT systems with one Integrated Core Processing ICT system.

⁶⁴ A Government Business Enterprise is a Commonwealth authority or Commonwealth company as defined by the *Commonwealth Authorities and Companies Act 1997* and prescribed as a Government Business Enterprise under the *Commonwealth Authorities and Companies Regulations 1997*.

be delivered through Medicare Australia. This option included comment that the service be restricted to businesses with less than 20 employees in order to minimise the impact on competition in the existing private sector market. Treasury advised that it favoured this service delivery approach on the basis of reducing financial risk and simplifying administration, both in relation to the application of regulatory oversight and funding arrangements.

2.21 In providing its advice, Treasury emphasised the benefits of the public sector providing the service but did not formally revisit the issue of the impact this regulatory action would have on a mature private sector clearing house market. For the purposes of the RIS policy in force at the time⁶⁵, Treasury's advice to the Government constituted a decision-making point, requiring a preliminary assessment by Treasury of the need for a RIS.

2.22 Treasury also advised that, as private sector provision was a feature of the original policy, the Prime Minister's agreement might be sought to deliver the service through Medicare Australia. Treasury prepared advice to support this process, in which it wrote that:

The Department of Finance and Deregulation advises that the clearing house service could be sourced from Medicare Australia without the need to go through a competitive tender process.

2.23 In response to Treasury's request for advice concerning risks or issues associated with government delivery of the clearing house measure, after the Executive Minute had been prepared, the ATO commented that a number of major benefits would be realised if a government agency like Medicare Australia delivered the approved clearing house service, including the resolution of the major prudential regulation issues. Furthermore, the ATO advised that there was a benefit in having certainty of gaining a provider without going through a lengthy procurement process.

Legislative changes

2.24 On 26 November 2009, the Government released for public consultation an exposure draft of legislative amendments to support the superannuation clearing house facility. Submissions were required within a month—by

⁶⁵ Australian Government, Department of Finance and Deregulation, *Changes to the Australian Government's Regulation Impact Statement requirements*, <<http://www.finance.gov.au/obpr/proposal/changestorirequirements.html>> [Accessed 29 February 2012].

23 December 2009. The draft legislation was anticipated to amend the *Superannuation Guarantee (Administration) Act 1992*, the *Retirement Savings Accounts Act 1997* and the *Superannuation Industry (Supervision) Act 1993* to allow employers to meet their SG obligations by paying to the approved clearing house.⁶⁶

2.25 In response to the legislative exposure draft, 10 submissions were published on Treasury's website. Key issues raised included that:

- a free service provided by government would be an unacceptable distortion of the market;
- an approved government clearing house should meet the same regulatory requirement as a private sector operation. To this end, an 'approved clearing house' should be applied as a regulatory class with defined regulatory characteristics that apply equally to all industry and government participants performing a clearing house function; and
- a number of submissions supported the need for consistent electronic data interchange standards, as a means of driving sector efficiency, and reducing costs.

2.26 Treasury prepared a revised preliminary compliance cost assessment prior to the introduction of the Bill into Parliament. The Explanatory Memorandum to the Bill noted that the compliance cost impact would be 'low or nil'. The Bill was introduced into the Parliament on 10 February 2010 and received Royal Assent on 3 June 2010. The Small Business Superannuation Clearing House (SBSCH) commenced operation on 1 July 2010, with employers and APRA-regulated superannuation funds being able to register from 24 May 2010.

⁶⁶ An 'approved clearing house' has the meaning given by subsection 79A(3) of the *Superannuation Guarantee (Administration) Act 1992*. Once payment for the contribution instruction amount is accepted by the 'approved clearing house', the employer's superannuation guarantee obligation is discharged, provided the contribution is received by the quarterly superannuation guarantee payment cut-off date. The employer does not need to wait until the contribution is accepted by the superannuation fund. The SBSCH is the only 'approved clearing house'.

2.27 On 15 March 2010, the Senate Economics Legislation Committee issued a report on the *Tax Laws Amendment (2010 Measures No 1) Bill 2010 [Provisions]*.⁶⁷ Treasury argued that as a result of ‘turning off’ the employer’s SG liability once the clearing house receives the payment, the financial risk of failure would be concentrated at the clearing house level, potentially affecting the employee entitlements of all employers using that clearing house—this is one of the key reasons that the clearing house was created within the public sector. This view reflects a change to the earlier advice Treasury provided to the Government, in which Treasury supported private sector provision of the service. The Committee noted Treasury’s view, and that the alternative (creating a regulatory framework for private providers) ‘would be prohibitive, would not guarantee against systemic failure and could result in the creation of an implicit contingent liability for the Government.’

Transition to implementation

Timeframe for implementing the SBSCH

2.28 The Government announced on 6 November 2009 that Medicare Australia would deliver the SBSCH facility. With a ‘go live’ date of 1 July 2010, Medicare Australia had eight months to fully implement the measure from the date it was announced. As Medicare Australia had been advised informally of its selection prior to the announcement, it was able to anticipate some of the preparations necessary to implement the facility. In September 2009 Medicare Australia was asked by Treasury to cost the implementation of the SBSCH, using Treasury’s assumptions of take-up and transaction throughput (discussed below).

2.29 In its costing summaries, Medicare Australia used an indicative implementation finish date of 10 October 2010, reflecting the period Medicare Australia deemed necessary to undertake the project. Treasury and Medicare Australia determined that a two-stage implementation approach could be undertaken, with registrations of superannuation funds in May 2010 and the commencement of payments by 1 July 2010. There was no contingency period built into the project if delays occurred.

⁶⁷ Commonwealth of Australia, The Senate, Economics Legislation Committee, *Tax Laws Amendment (2010 Measures No 1) Bill 2010 [Provisions]*, March 2010, <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=economics_ctte/lab_1_2010/report/index.htm> [Accessed 19 April 2012].

Clarification of program parameters

2.30 As the program was created in the context of being an election commitment, its costing and the assumptions were published under the Charter of Budget Honesty.⁶⁸ The inputs for the costing stated that the program is ‘...expected to affect around 10 per cent of small business employees in 2009–10 and 15 per cent in 2010–11.’⁶⁹ Subsequent sensitivity analyses and assumption documents refer to the anticipated take-up of the service by employers. The expected take-up of the service by employers (75 576 or 10 per cent of the estimated eligible population of 755 758 in the first year⁷⁰), was a key implementation planning input for Medicare Australia. The expected take-up rate informed system design, budget and the resources required, particularly with regards to labour-intensive functions such as help-desk services, and exceptions processing.

2.31 Medicare Australia provided Treasury with project costings of \$16.8 million and an estimated full time equivalent (FTE) staff requirement of 89 (Table 2.2 outlines the costing summary). Treasury asked Medicare Australia to provide further analysis to test the sensitivity of these costings. Treasury considered that the results indicated that Medicare Australia’s costings would not be very sensitive to changes in volumes processed.

Table 2.2

Costing summary

2009–10	2010–11	2011–12	Total
\$3 239 000	\$6 691 000	\$6 888 000	\$16 818 000
15.71 FTE	30.74 FTE	42.68 FTE	89.13 FTE

Source: Information provided by Medicare Australia.

2.32 Medicare Australia went to considerable lengths to confirm with Treasury the various assumptions relating to the superannuation clearing house measure, noting Treasury’s responses in an internal document in

⁶⁸ Further information on the Charter of Budget Honesty is available online at <<http://www.finance.gov.au/publications/charter-of-budget-honesty/index.html>> [Accessed 8 May 2012].

⁶⁹ Australian Labor Party, Public release of costing number 122, *Superannuation Clearing House*, <http://archive.electioncostings.gov.au/_data/assets/pdf_file/0004/64309/ALP122_Public_release_of_costing_-_Superannuation_Clearing_House.pdf> [Accessed 5 January 2012].

⁷⁰ Increasing by an additional 10 per cent of the eligible population in each of the next two years for a total take-up of 30 per cent of the eligible population after three years.

October 2009.⁷¹ As well as confirming the level of appropriation and the expected rate of registrations of employers with less than 20 employees, Medicare Australia confirmed:

- that the clearing house would have no regulatory role in relation to employers or superannuation funds, or monitoring/enforcing compliance with the SG arrangements;
- the appropriate definition of what constituted 20 employees, and how this would be monitored;
- that Treasury had considered the implications of Medicare Australia providing a facility already being delivered by the private sector;
- that the clearing house would not be regulated by any supervising body such as APRA, the ATO or ASIC; and
- that Medicare Australia had not costed for any communication work.

Medicare Australia's authority to deliver the SBSCH

2.33 While the Government announced on 6 November 2009 that Medicare Australia would deliver the SBSCH facility, Medicare Australia did not, at that time, have the authority to perform the function. The Medicare Australia Chief Executive Officer (CEO) (and consequently Medicare Australia) only had authority to perform functions conferred under section 5 of the *Medicare Australia Act 1973*. This section of the *Medicare Australia Act* sets out a number of different means by which functions could be conferred on the Medicare Australia CEO. Subsection 7(2) of the *Medicare Australia Act* provided that the CEO may only enter into a service arrangement with the written approval of the Minister.

2.34 The Government announced on 10 February 2010 that it would introduce legislation into the Parliament to provide the legislative framework for its superannuation clearing house service for small business.⁷² It further stated that, following the passage of the Bill, a regulation would be made specifying Medicare Australia as the approved clearing house for the purposes

⁷¹ Treasury's assumptions differ from those finally adopted by Medicare Australia. Treasury assumed a population of 722 580 employers with less than 20 staff; and employer registrations of 10 per cent, 15 per cent and 15 per cent in each year from 2010–11 to 2012–13.

⁷² The superannuation clearing house measure was contained in the *Tax Laws Amendment (2010 Measures No. 1) Bill*.

of the legislation. Medicare Australia advised its Minister that, as the Bill did not provide express authority for the CEO to perform the SBSCH function, an alternative means of conferring that function on the CEO was required. Medicare Australia recommended that the Minister authorise the CEO to enter into a service arrangement made under subsection 7(2) of the *Medicare Australia Act* with the Secretary of Treasury to deliver the SBSCH facility.

2.35 On 20 May 2010 the Minister for Human Services signed an approval for the CEO of Medicare Australia to enter into such a service arrangement. Legal advice provided to Medicare Australia recognised that, as well as providing Medicare Australia with the necessary legal authority, a service arrangement would be required to document service requirements. The Service Arrangement was signed on 17 June 2010.

Medicare Australia’s SBSCH appropriation

2.36 In February 2010, the Minister for Finance made a Determination under subsection 32(2) of the *Financial Management and Accountability Act 1997* (the FMA Act). The Determination was made as a result of the Government’s decision to transfer the function of the implementation of the SBSCH from the ATO to Medicare Australia, and backdated to 29 October 2009.

2.37 The Determination transferred a total of \$4 million from the departmental item for the ATO for 2009–10. Amounts for 2010–11 and 2011–12 were appropriated directly to Medicare Australia, so that the total appropriated was \$16.1 million as shown in Table 2.3 below.⁷³

Table 2.3

Small Business Superannuation Clearing House funding

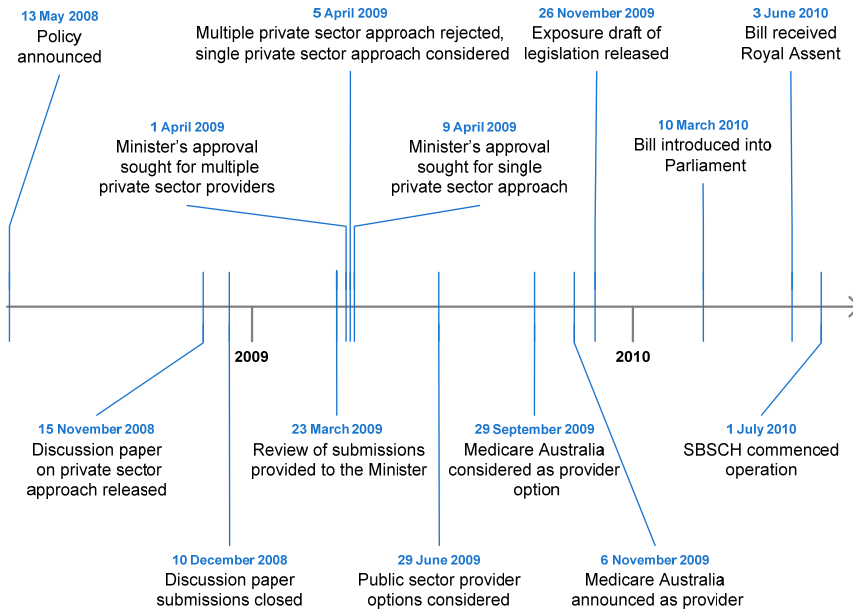
2009–10 \$’000	2010–11 \$’000	2011–12 \$’000	Total \$’000
4000	6000	6100	16 100

Source: Information provided by Medicare Australia.

Timeline of SBSCH program design and delivery

2.38 The timeline of the major steps in the SBSCH program design and delivery is summarised in Figure 2.1.

⁷³ Issues around the allocation of the SBSCH appropriation, planning the budget and accounting for expenditure are discussed in Chapter 4.

Figure 2.1**Timeline of Treasury's Small Business Superannuation Clearing House program design and delivery**

Source: ANAO analysis of Treasury, ATO and Medicare Australia documents.

Conclusion

2.39 Following the Government's announcement of a superannuation clearing house facility, Treasury managed the process to design the program parameters for the facility. It conducted a public consultation process in accordance with the Government's announcement. It also consulted with the ATO, the agency initially identified as being responsible for managing the program using private sector providers. Treasury provided advice to the Government on two occasions to seek agreement on detailed policy issues and provided information briefs to the Government from time to time. These activities were consistent with Treasury's role and helped move the program from a policy measure to implementation stage.

2.40 Consistent with the principles of co-design, Treasury released a public discussion paper in November 2008, seeking comment on private sector delivery of the superannuation clearing house facility. Overall, the responses indicated that the private sector was able to provide government-funded superannuation clearing house services. Treasury reviewed the 36 responses

and provided a summary of the submissions to the Minister for Financial Services and Superannuation.

2.41 Treasury designed the SBSCH program parameters, after exploring a number of different potential delivery options during the process. It consulted with stakeholders, kept the Government informed, and by selecting Medicare Australia to deliver the clearing house, resolved the prudential regulation issue associated with a private sector provider(s).

2.42 While Treasury recommended limiting the clearing house service to small business in order to minimise the impact on the existing private sector market, Treasury did not produce a preliminary assessment to determine whether a RIS was necessary at two decision points during the program design. As a consequence, Treasury did not conduct an assessment of the potential legislative and competition impacts at the point at which the delivery model changed from a multiple private sector to a single private sector provider model, nor at the change to the public sector model.

3. Implementation of the Small Business Superannuation Clearing House

This chapter examines Medicare Australia's implementation of the SBSCH.

Introduction

3.1 As previously discussed, Medicare Australia received formal notification of its selection to provide the SBSCH on 29 October 2009. It was required to start taking registrations from employers and APRA registered funds in May 2010, with a full implementation date from 1 July 2010.⁷⁴ This was a very short timeframe to implement such a program, as Medicare Australia had to establish business processes, management oversight and ICT arrangements.

3.2 Medicare Australia adopted a project management approach to guide the implementation of the SBSCH. The project was managed by the New Business Projects Section within Medicare Australia, under the Government-Business Delivery Branch. During the implementation phase, Medicare Australia allocated 8.5 full time equivalent (FTE) staff to the project. An allocation of \$1.7 million for the development of the program's ICT systems included funding for additional contract staff.

3.3 At the completion of the project, the Project Manager prepared a project closure report. This documented the status of all project deliverables, risks, the budget and lessons learnt for future projects. A post-implementation review was also completed by Medicare Australia's Internal Audit.

⁷⁴ The actual date that registrations began was 24 May 2010.

3.4 To assess the effectiveness of Medicare Australia's implementation of the SBSCH, the ANAO examined whether:

- project management arrangements were supported by an appropriate project plan, that included governance arrangements and the assessment of risks;
- engagement with stakeholders contributed to an improved delivery solution;
- appropriate ICT systems were designed and effectively developed; and
- the transition from project implementation to full operation was managed effectively.

Project management arrangements

Project planning

3.5 Medicare Australia adopted its corporate project management framework, the *Medicare Australia Project Management Framework*, to implement the SBSCH.⁷⁵ This framework is based on the establishment of an approved project plan that provides the basis for identifying, allocating and monitoring all tasks required to implement a program.

3.6 The project officially commenced on 29 October 2009 and standard project planning elements, such as a project plan, project schedule, risk management plan, budget and governance arrangements were also commenced at this time. A separate ICT project plan was developed in November 2009, detailing the development and implementation of the systems needed to deliver the SBSCH. These planning documents specified the project's objectives and scope, budget, key milestones, governance arrangements, risks, communications strategy and resource management and formalised the existing project parameters and activities of the project team. This documentation did not initially meet the requirements of the *Medicare Australia Project Management Framework*, and the project plan was rewritten in April 2010 using this template.

⁷⁵ This was replaced by an updated DHS *Project Management Framework* in September 2011.

Project governance

3.7 The governance arrangements for the project were specified in the project plan (both the October 2009 and April 2010 planning documents). Oversight was provided by the Corporate Management Committee (discussed further in Chapter 5). This committee was supported by the Business Management Committee in overseeing the implementation of the SBSCH. For the transition of the SBSCH to a business-as-usual program, an additional committee was established in May 2010—the SBSCH Project Steering Committee.⁷⁶

3.8 The project executive sponsor (the General Manager of the Business Division) and the Business Management Committee received monthly *Business Readiness and Delivery Reports* from the project team (from November 2009 to July 2010). These ‘traffic light’ project status reports outlined progress against project deliverables, such as the budget, schedule, scope, risks, and resources, as well as products within the project itself (such as staff training and procedural documents, forms and publications, ICT systems, and stakeholder consultation). Throughout the project the development of the program’s system was on track. Issues which were identified and managed to resolution were:

- stakeholder consultation, as there were numerous stakeholders and consultation was time consuming; and
- tight timelines for the project increased the risk of insufficient time to fully develop business requirements, with potential impacts on the project delivery. There was no contingency period available if delays occurred.

3.9 The Project Manager’s project closure report, and a post-implementation review undertaken by Medicare Australia’s Internal Audit, both acknowledge that the late establishment of a dedicated project steering committee (in May 2010) was not ideal and had an adverse impact on the timely approval of implementation activities. In this regard, the project closure report also noted that with the project sponsor designated as a key decision point, there were risks associated with individuals not being available. This issue would be resolved by new programs within Medicare

⁷⁶ The steering committee first met on 3 June 2010.

Australia establishing governance committees during the early stages of projects.

Management of project risks

3.10 A risk management plan was commenced in November 2009, and included in the April 2010 revised project plan. Within the four risk categories of strategic, stakeholder, governance and delivery, possible risks were rated according to likelihood and severity. Key causes, issues, possible consequences and risk mitigation strategies were outlined, as well as the residual risk levels. Responsible staff were allocated to each risk mitigation activity and given a timeframe in which to implement these strategies. Successful risk mitigation strategies included:

- establishing stakeholder working groups to co-design Medicare Australia's clearing house model;
- completing end-to-end user testing of ICT systems, including user acceptance testing of registrations and payments; and
- obtaining agreement with working groups on data standards, live data-matching with the Australian Business Register and introducing a validation process of 10 per cent of employers.

3.11 The plan became an effective implementation tool through to the 'go live' date for the project. Monthly changes to the plan were summarised for the review and approval of the Executive Sponsor. The Project Closure Report also included a review of the risk register and noted that risks were either closed or transferred to the operational risk management plan, as part of the Business As Usual Transition Plan.

Stakeholder engagement during implementation

3.12 The relationships between a service agency and industry stakeholders can make an important contribution towards the identification and management of risks to the delivery of key program objectives. This relationship can also assist in the identification of program features that are important to stakeholders, and may assist in the take-up of a program.

Stakeholder participation

3.13 To facilitate stakeholder involvement, two working groups were established: the Superannuation Clearing House Industry Working Group; and

the Superannuation Clearing House Working Group. The role of each working group was to support the project manager and the project team by representing the interests of their stakeholders. They provided advice and guidance relating to the design, development and usability of the SBSCH. The groups did not have a decision-making role.

3.14 The Superannuation Clearing House Industry Working Group included membership from superannuation fund representatives, as well as Treasury and the ATO. The Superannuation Clearing House Working Group was more employer-focused, but also included Treasury and considered issues for employers in dealing with the clearing house. Initially planned to run for six months during the implementation phase, the Working Groups met approximately monthly from January 2010 until August 2010 (for the Superannuation Clearing House Working Group) and November 2010 (for the Superannuation Clearing House Industry Working Group).

3.15 The ANAO sought feedback from participants of the working groups during the course of this audit. All agreed that Medicare Australia's stakeholder management during the implementation was productive and effective. Medicare Australia gained important industry knowledge, which enabled it to develop a clearing house solution that was both accessible to users, and efficient in transferring payment details to superannuation funds.

Communications strategy

3.16 A separate project communications plan was developed for the implementation phase of the SBSCH, but no advertising budget was allocated.⁷⁷ The service arrangement between Treasury and Medicare Australia states that Medicare Australia will develop communications material for employers and superannuation funds but is not responsible for providing information to the public, other than employers and superannuation funds.

3.17 Medicare Australia undertook a range of communications activities, including:

- an SBSCH webpage on the Medicare Australia website, which included a brochure, fact sheets and 'Frequently Asked Questions';
- posters and brochures placed in Medicare Australia public offices;

⁷⁷ Medicare Australia has advised that the term 'advertising' used in this context would mean a large public campaign utilising print and possibly television ads.

- articles in the ATO and Human Services portfolio newsletters;
- information given to working groups (both the Industry Working Group and the Working Group) for distribution to their members; and
- solicited media promotion targeting outlets such as national, regional and financial industry print and broadcast media.

3.18 Between 20 May 2010 and 2 July 2010 Medicare Australia reported 45 media items, and estimated an audience of one million people had been reached. At the end of July 2010 approximately 1130 employers had registered to use the SBSCH.⁷⁸

Information and communication technology

3.19 ICT systems are fundamental to the operation of the SBSCH for the web-enabled access point for users, and the electronic payment distribution to superannuation funds. Accordingly, effective ICT project governance and change management practices were essential if the system was to meet business requirements. Business requirements for the SBSCH included:

- an online registration capability for employers and superannuation funds, allowing entry of employee and bank details;
- Medicare Australia operator functions such as search, report and comment functionality;
- an electronic payment facility, that allowed the matching of employer contributions with payment instructions, internal reporting and payment reconciliation reports;
- storage of data in an enterprise data warehouse; and
- interaction with existing Medicare Australia systems, such as the finance and common payment system.

3.20 The ANAO examined Medicare Australia's ICT governance processes for system development, testing, change management and activities that were

⁷⁸ Communication strategies and take-up after the 1 July 2010 start of the program are discussed in Chapter 4.

contracted out to a third party provider.⁷⁹ Table 3.1 summarises the ANAO's findings.

Table 3.1

Summary assessment of ICT implementation for the Small Business Superannuation Clearing House

Issue	Relevance	Assessment and comment
Project methodology applied and followed.	Improves prospects of a successful project delivery.	✓✓ Medicare Australia had a Project Management Framework. The ICT component of the project was documented in November 2009.
System Development Life Cycle applied and followed. ⁸⁰	A high level governance process for building and implementing systems.	✓✓ Medicare Australia had a System Development Life Cycle which was applied.
Work undertaken by third parties is documented and approved.	Provides clarity around the expectations for deliverables.	✓✓ Formal documentation regarding the third party provider's involvement was completed and approved.
ICT testing strategy is applied and followed.	To ensure that systems operate as intended.	✓✓ A testing strategy was developed and followed.
Change management controls consistently and correctly applied.	Essential for ongoing reliability and performance of ICT systems.	✓✓ There were formal change management procedures. Out of 83 change requests examined by the ANAO, all could be traced from change request through to functional testing.

Legend: ✗: not adequate; ✓: generally satisfactory, with scope to improve; ✓✓: satisfactory

Source: ANAO analysis of Medicare Australia data.

3.21 At a project level, the ICT component of the SBSCH implementation adhered to project governance structures: standard ICT project management principles were documented and followed; third party work was documented and approved; and ICT testing strategies were applied.

⁷⁹ Third-party provider activities included design and documentation of the elements of the system, set-up of system architecture and the provision of infrastructure support.

⁸⁰ A Systems Development Life Cycle is a model used in project management that describes the stages involved in an information system development project, from an initial feasibility study through maintenance of the completed application.

Transition to operations

3.22 As previously discussed, Medicare Australia had about eight months to implement the SBSCH facility. Despite this short timeframe, the program was delivered on time and under budget (discussed in Chapter 4) and went live on 1 July 2010. Functionality for pre-registrations of employers and APRA-registered superannuation funds was available from 24 May 2010. The change from program development to business as usual was documented in a transition plan, which specified handover and operational arrangements for the ongoing running of the SBSCH.

3.23 All project deliverables were completed. However, as the program went live, an automated process had not yet been fully developed to manage exceptions such as returned payments.⁸¹ Returns processing had not been included in the original scope for the project, and consequently manual processes had to be developed and documented prior to going live. Medicare Australia subsequently developed a system-based returns-processing solution, which was implemented on 25 June 2011.⁸²

3.24 On 5 November 2010, Medicare Australia sent Treasury a post-implementation survey, designed to gauge views on the delivery of the program. This response was documented in the project closure report, and contained information on initiation of the project, implementation and post-implementation. Out of 19 questions, Treasury rated Medicare Australia's performance as excellent (15 questions), very good (one question), and good (three questions). Notably, Treasury commented that the working relationship between the two agencies during implementation was excellent.

3.25 External stakeholder feedback received by the ANAO was also complimentary of:

- Medicare Australia's implementation of the SBSCH, particularly given the very short timeframe; and
- the SBSCH itself, as an effective system for processing payments.

⁸¹ Returned payments occur, for example, when details of the employee do not match details that the superannuation fund has recorded.

⁸² Some manual controls are still used, and these are discussed in Chapter 4.

Post-implementation review

3.26 The project benefited from a comprehensive internal review process, including the identification of appropriate 'lessons learned'. A post-implementation review of the SBSCH project was carried out by Medicare Australia's Internal Audit. This comprised a controls framework review in November 2010 and a full post-implementation review in January 2011.

3.27 The controls framework review covered the practices implemented to ensure correct and effective processing and handling of funds received by the SBSCH. Access to the SBSCH, payment matching processes, returns processing and ICT reporting were reviewed. The post-implementation review covered all aspects of the project implementation, and whether the SBSCH project met the requirements of stakeholders and the project business case. The review concluded that the SBSCH met these requirements.

Conclusion

3.28 Medicare Australia's successful implementation of the SBSCH followed a project management approach. Important elements of project planning and governance were in place from the inception of the project. The ICT component of the SBSCH implementation adhered to project governance structures. The implementation of the SBSCH was effective overall, on time and on budget and the project benefited from a comprehensive post-implementation review process. Stakeholder feedback was incorporated through the use of working groups; and a communications strategy led a range of communications activities targeting small business owners. Treasury also commented that the relationship during implementation had been excellent. The SBSCH went live on 1 July 2010 as planned with all project deliverables completed. Feedback received by the ANAO from industry stakeholders was positive: the SBSCH is a workable solution to the clearing house function, and delivered in a very short timeframe.

4. Ongoing Management of the Small Business Superannuation Clearing House

This chapter examines Medicare Australia's ongoing administrative arrangements for the SBSCH.

Introduction

4.1 The SBSCH became fully operational, as planned, on 1 July 2010 and is now a business-as-usual function for Medicare Australia. As at 31 May 2012, Medicare Australia advised that:

- 24 397 employers have registered, who together make payments on behalf of 159 037 employees;
- 3655 superannuation funds have registered to take payments, made up of 423 APRA-regulated funds and 3232 self-managed superannuation funds;
- 86 522 employer payments have been made, representing 561 010 payments for employees, totalling \$316.5 million;
- 2361 payments have been returned from superannuation funds, which is 0.4 per cent of the total payments made for employees⁸³; and
- 25 173 telephone enquiries have been answered.

4.2 In order to assess the effectiveness of the ongoing management of the SBSCH, the ANAO examined the business processes that deliver the SBSCH⁸⁴, including ICT support and data transfer arrangements.

The SBSCH business process

4.3 The business process requirements of the SBSCH are defined as the group of activities undertaken to provide the clearing house function. These

⁸³ Money is returned, for example, when the details of the employee do not match the details that the fund has recorded.

⁸⁴ A business process can be described as the group of activities undertaken to provide an outcome or a service.

activities (illustrated in Figure 1.1) include:

- employees complete a form to nominate their preferred superannuation fund⁸⁵;
- employers self register through the registration portal on <www.medicareaustralia.gov.au/super>, and enter the details of their business. The registration system incorporates a real-time look-up of the employer's Australian Business Number (ABN). In order to receive payments, superannuation funds are registered by SBSCH staff;
- employers receive an automated email from the SBSCH, containing a user ID and a link, so that they can securely log on to the SBSCH. Once logged on, employers enter the Tax File Number and superannuation fund details of their nominated employees;
- superannuation contribution payments must be made at least quarterly, but employers can choose to pay more frequently. The portal pre-populates employee details, and employers then enter the contribution amounts. The accompanying payment is through electronic funds transfer (BPAY) to the SBSCH special account in the Reserve Bank of Australia. The contribution information is directed to the SBSCH itself;
- the SBSCH automatically verifies that the contribution payment instructions received by the SBSCH correlate to the amount received by the Reserve Bank of Australia;
- the SBSCH issues a pay authority to the Reserve Bank of Australia, which then transfers the funds to the nominated superannuation funds;
- contributions unable to be allocated, either by the Reserve Bank of Australia or the superannuation fund, are returned to the SBSCH for further investigation; and
- both employers and superannuation funds can access reports giving the details of their payment history through the SBSCH portal.

Medicare Australia also runs a helpdesk call centre to assist external users.

⁸⁵ The *Standard Choice Form* is available for download from the ATO website, <<http://www.ato.gov.au/corporate/content.aspx?doc=/content/56761.htm>> [Accessed 14 February 2012]. Employers also complete this form if they have employees who are eligible to choose a superannuation fund, or if they change their employer-nominated superannuation fund.

Administrative arrangements

4.4 With transition of the project to an operational program from July 2010, the management of the clearing house became the responsibility of the Government–Industry Branch. The project team continued to provide support to the program team with ongoing enhancements to the electronic clearing house system. Since 1 July 2011, the SBSCH has been managed by the Health and Service Delivery Reform Group of DHS. In managing the operational aspects of the SBSCH, 26 full time equivalent (FTE) staff were allocated to the program in 2011–12. The following business areas within Medicare Australia have specific roles:

- National Program Management Team—nine staff located in Canberra, and the team has responsibility for managing the SBSCH. This team is part of the Government Business Branch in the Business Services Division;
- Operations Team—ten staff in Melbourne and three staff in Perth. Their main role is to answer general enquiries via telephone or email, perform *Employer Spotchecks* (discussed below), and general administrative tasks. This team is part of the Medicare Providers Branch in the Health e-Business Division⁸⁶;
- Government Business Management—two staff in Canberra responsible for the executive management of the SBSCH; and
- Project Delivery Team—two staff in Canberra who undertake ICT system maintenance and assistance tasks.

Information and communication technology support arrangements

4.5 The SBSCH ICT solution utilises a web-based application, two servers (one as a back-up) and a database. The management of Medicare Australia’s ICT infrastructure is outsourced to a third-party provider who is responsible for the configuration and management of the server.⁸⁷ Medicare Australia is

⁸⁶ An additional six staff in Medicare Australia’s Parramatta office have been trained in delivering the service if needed, but are not allocated to the program.

⁸⁷ This current outsourcing arrangement expires in December 2012 and services are being returned in-house under consolidated DHS ICT infrastructure.

responsible for the SBSCH database and the web application that enables registration and payments.

4.6 The ANAO examined the end-to-end process mapping for the SBSCH against the business specifications for the system, and the system's configuration documentation. Medicare Australia's documentation provided a comprehensive overview of the SBSCH and the linkages between the different components of the system, including documenting the business process, the security requirements, the network structure, the user requirements, and the ICT support processes. This is important given the proposed changeover from a third-party provider to in-house ICT support.

ICT security

4.7 Without adequate security management, there is a risk of unauthorised access to programs and data files. A security failure would have important implications, as the SBSCH contains unique identifying information which could be used for criminal purposes, and facilitates the transfer of money.

4.8 The Australian Government's *Protective Security Policy Framework* (PSPF) requires government agencies to implement policies and procedures for the security classification and protective control of information assets (electronic and paper-based) which match their value, importance and sensitivity.⁸⁸ The underlying procedures about ICT security are provided in the *Information Security Manual* (ISM), which sets out technical measures (controls) to protect information stored or transmitted through electronic means.⁸⁹

4.9 'Network security management' refers to the controls that are in place to ensure the confidentiality, integrity and availability of information as it passes within a network, and to and from an outside network (either to other networks within the same organisation or via the Internet to a third party). Whether ICT networks are provided in-house or by external service providers, agencies are responsible for ensuring that their ICT systems meet the PSPF and ISM requirements.

⁸⁸ Australian Government, *Protective Security Policy Framework*, January 2011, INFOSEC 3, p. 26.

⁸⁹ Prepared by the Defence Signals Directorate, the 2012 version is available from <http://www.dsd.gov.au/infosec/ism/index.htm>.

Table 4.1

Summary assessment of security for the Small Business Superannuation Clearing House

Issue	Relevance	Assessment and comment
ICT security governance framework in place	In accordance with Australian Government protective security requirements.	✓✓ Medicare Australia has a comprehensive security framework that includes a Common Components Framework ⁽¹⁾ , Security System Plans, Security Risk Management Plans, and a National e-Authentication Framework assessment. ⁽²⁾
Third party security	Prevents unauthorised access, safeguards data integrity and confidentiality.	✓ There is an agreement with the third party provider on the provision of SBSCH infrastructure, and logging of actions taken in the system. Medicare Australia monitors the application. Minor system configuration in place varies from that documented.
Logical access controls	Users and their activity should be uniquely identifiable.	✓✓ User access controls are in place.
Process to detect security incidents and report breaches	Safeguards data confidentiality, integrity and availability.	✓ User access logs are generated. These logs are reviewed regularly, however the review process is not yet formally documented.
Management of data exchange outside the organisation	Safeguards data confidentiality, integrity and availability.	✓✓ Information transfer is adequately secure. Privacy of employer and superannuation fund information is in accordance with the DHS Security Risk Management Plans, the PSPF and ISM. Web sessions utilise password encryption for the security of information.
Access management ⁽³⁾	Prevents unauthorised access, safeguards data integrity and confidentiality.	✓✓ Password and identity security is in place for users and staff. User identification and password security meets the ISM requirements.

Legend: ✖: not adequate; ✓: generally satisfactory, with scope to improve; ✓✓: satisfactory

Source: ANAO analysis of Medicare Australia data.

Note 1: A Common Components Framework provides a communication interface between components in a multi-tiered software application.

Note 2: Electronic authentication (e-authentication) assures the identity of individuals and businesses dealing with the government, as well as the authentication of government websites. A National e-Authentication Framework assessment provides assurance that e-authentication is conducted in accordance with the agency's approach to identity and risk management.

Note 3: The PSPF (INFOSEC 5) requires that agencies have control measures based on the business owner requirements and assessed and accepted risks for controlling access to information, ICT systems, networks and applications.

4.10 To assess Medicare Australia's network security management, the ANAO reviewed compliance with the PSPF and applicable ISM requirements and undertook testing against the following key areas: network security management practices; security of information exchange; and implementation of gateway and network access point technical measures.⁹⁰ Table 4.1 summarises the ANAO's findings.

4.11 At the governance level, Medicare Australia has a sound security framework, information transfer security controls, and access management controls in place. Security logging and user access logging for the database and the SBSCH application are in place; however, not all monitoring and review processes have been formally documented. Medicare Australia has advised that documenting these processes is currently underway.

Data transfer mechanisms

4.12 Assurance that data transfer is secure, accurate and complete is critical to the proper management of employees' and employers' payments. To assess the SBSCH's data transfer mechanisms the ANAO examined the processes for data transfer in the key areas of: payments; returns processing; and client registration.

Small Business Superannuation Clearing House payment transactions

4.13 To validate the security and integrity of SBSCH payment transactions, the ANAO examined employer registrations, superannuation fund registrations, superannuation payments and superannuation contribution instructions data.⁹¹ Results from this analysis were comparable with results reported by the SBSCH in monthly status reports, including: the monthly employer registration numbers; the number of self-managed superannuation funds and APRA-regulated superannuation funds registered; the number of payments made by employers on behalf of employees to superannuation funds; and the proportion of employers with more than 19 active employees. Out of a total of 20 994 registered employers tested, only 1.5 per cent (324) were inactive (that is, have never made a payment using the system). These

⁹⁰ For example, the use of appropriate security methods to allow authorised users access to the SBSCH.

⁹¹ The dataset was inclusive of the period 24 May 2010 to 5 March 2012.

inactive employers may include newly registered businesses that have yet to make a payment.

Payments returned to employers

4.14 SBSCH monthly status reports give the number of payments returned from superannuation funds (discussed later in this chapter). These reports do not give the number of payments returned to employers from the Reserve Bank of Australia (the step before payment is forwarded to the superannuation fund). These can occur when: the payment is not an exact match to the contribution instruction; employers make duplicate payments; or because a payment does not have an accompanying contribution instruction within seven days.

4.15 Returning payments is an automated process, with inbuilt SBSCH system functionality, that requires no manual intervention by the SBSCH staff. When a payment is received without a contribution instruction, the payment is held, and a tailored automated email is sent to the employer advising them that a contribution instruction is required to complete the transaction. Subsequent emails are sent, if needed, on day four and day seven. The payment is automatically returned after day seven if the contribution instruction is not received.

4.16 The ANAO's analysis of the superannuation contribution instruction data found that 1.8 per cent of all initial transactions could not be processed and had to be returned to the employer (7 953 unsuccessful initial transactions out of 448 305 total transactions), and this is comparable to the results reported by Medicare Australia. Out of the unsuccessful initial transactions:

- almost 97 per cent (7 692) were due to the amount not matching the contribution instruction;
- almost 2 per cent (146) were due to employers making duplicate payments; and
- just over 1 per cent (115) were due to no contribution instruction being received within seven days of the payments being made.

4.17 To address employer-induced errors, the SBSCH provides information emails to employers, targeted customer assistance, information updates on the website and system enhancements such as improved messaging.

4.18 The ANAO's data analysis validated the controls in place for SBSCH data transfer mechanisms that maintain the security and integrity of the

underlying data. The access, data transfer and reconciliation controls were tested and confirmed to be operating effectively.

Returns processing

4.19 Returns occur when contributions are paid to funds, but cannot be allocated (for reasons such as member identification numbers being incorrect), and are returned to the SBSCH. Superannuation funds nominally have 30 days to return the funds to the SBSCH, as indicated in the information provided to superannuation funds on the SBSCH website.⁹² The SBSCH cannot enforce this requirement.

4.20 As well as automated ICT controls, the SBSCH has manual controls over the returns reconciliation process. While the processing of returns has been fully automated since 25 June 2011, their reconciliation involves:

- the manual matching of returned monies to payments of contributions made through the clearing house;
- phone calls to participants to determine correcting actions; and
- the manual authorisation and release of a payment.

4.21 This process is documented through a *Returns Processing Checklist* as part of the SBSCH Quality Control Framework. These controls include the segregation of duties, and multiple check points and authorisations by staff at the appropriate level.

4.22 There were 2361 returns from 1 July 2010 to 31 May 2012, representing 0.4 per cent of payments made using the SBSCH. This figure is low when compared with the five to 10 per cent estimated industry average return rates.⁹³ The ANAO undertook compliance testing on a sample of 98 returns covering the period 1 June 2011 to 31 January 2012.⁹⁴ The returns were appropriately

⁹² Information for superannuation funds and administrators—version 2.0, p. 17, <<http://www.medicareaustralia.gov.au/super/files/3006-information-for-superannuation-funds-n-administrators.pdf>> [Accessed 7 March 2012].

⁹³ Industry benchmarks for processing error rates are not published. This estimate was provided to the ANAO during consultation with superannuation industry stakeholders.

⁹⁴ The sample was selected from the period 1 June 2011 to 31 January 2012 (the most recent date for which the volume of return transactions was known). This coincided with the maturing of SBSCH processes and the increased volume of transactions due to the mail-out exercise (discussed later in this chapter)—which resulted in a corresponding increase in the number of returns. Of 806 returns in this period, the ANAO sampled 98, which provides a 95 per cent confidence interval of + or - 10.

actioned, documented, reviewed and the return payment authorised, with adequate segregation of duties. There was one instance where the manual processing checklist had not been signed off by the reviewing officer. Nevertheless, the underlying transaction was correctly processed.

Client registration controls

Compliance with the less than 20 employee limit

4.23 The SBSCH is available to employers with fewer than 20 employees. An employee is defined as an individual who is employed on a full-time, part-time or casual basis. Employers can enter more than 19 employees into the SBSCH system, but should only use the service for 19 of them at any one time. There are no system controls to limit this number to 19, so Medicare Australia runs *Compliance Reports* every quarter that identify any employers using the service with more than 19 employees during three quarters of the previous 12 months. These are reviewed by the Program Management Team, who first check to see if the employer has more than 19 'active employees'.⁹⁵ No action is taken against these employers, as they are not exceeding the employee limit. Checking is also undertaken to ensure that the excess is not due to seasonal fluctuations.

4.24 The first time non-compliance is detected, the employer is contacted by telephone and email, notifying them of the eligibility requirements. If non-compliance is detected in the next quarter, the same action is taken. If non-compliance is detected again in the third quarter, the employer is contacted by telephone and email and told that their account has been deactivated. In all these circumstances, Medicare Australia provides the employer with consistent and general information on alternative services that the employer could use instead of the SBSCH. Employers can request reinstatement of their account in writing, by providing details of circumstances, or if their employee numbers fall below the threshold again. Medicare Australia uses the successive levels of warning to take account of seasonal fluctuations in staff numbers for some industries.

4.25 Since the SBSCH became operational, Medicare Australia advised that there have been 284 instances of non-compliance with the less than 20 employee limit. These employers were contacted and only ten employer

⁹⁵ Employers may have more than 19 employees registered if someone has resigned and another been engaged within the same period.

accounts needed to be deactivated for exceeding the eligibility threshold. No accounts have been reactivated.

Business and employer validation

4.26 Each month, SBSCH staff contact 10 per cent of newly registered employers by telephone to verify that the company has registered with the SBSCH (rather than someone else using that company's ABN), as well as to offer assistance in using the SBSCH. This process is known as *Employer Spotchecks*, and the employer's contact details are obtained from publically available listings as opposed to the contact details entered during the SBSCH registration process.

4.27 From 21 July 2010 to 25 January 2012, there were 4163 employers identified for *Spotcheck* validation, which is over 20 per cent of the total number of employers registered for the same period (there were 20 417 employers registered as of 31 January 2012). The ANAO's initial review of these *Spotcheck* results found incomplete case records. Medicare Australia subsequently confirmed that, of the 4163 *Spotchecks*:

- 3112 were successfully completed (75 per cent);
- 614 were unable to be completed due to the employer's contact details not being available from a public listing (15 per cent); and
- 437 *Spotchecks* had incomplete records (10 per cent).

4.28 These results indicate that, although the *Spotcheck* process supports validation of employer identities, the recording of results could be improved. Medicare Australia advised that the process for recording *Spotcheck* results is being refined in order to improve the management of this information in the future.

4.29 All superannuation funds are validated. Each week, there is an automated check of the ABN status of registered superannuation funds for any changes to their status. The SBSCH administration team follow up on any changes identified. An example of a change is a registered self-managed superannuation fund updating their registration status by supplying their ABN. No action is required from the administration team in this instance.

Monitoring standards of service

4.30 At an operational level, the standard of service is the primary focus of performance monitoring for the SBSCH. The three service standards of relevance to SBSCH operations, and the program's reported performance against these for the period 1 July 2010 to 31 May 2012 are shown in Table 4.2. Medicare Australia reported that it exceeded its performance targets against these standards.

Table 4.2

Reported performance against service standards—July 2010 to May 2012

Service Standard	Reported Performance
90 per cent of telephone calls answered within 30 seconds.	Three months at 100 per cent, 18 months at 99 per cent and two months at 98 per cent.
96 per cent of correctly made payments are processed within two working days.	One month at 100 per cent, 17 months at 99 per cent, two months at 98 per cent, two months at 97 per cent, and one month at 95 per cent. The 95 per cent result was in December 2010, and related to the Christmas public holidays not being reflected in Medicare Australia's reporting system.
95 per cent of customer feedback is acknowledged and resolved within 10 days.	23 months at 100 per cent.

Source: ANAO analysis of Medicare Australia's monthly reports.

4.31 In addition, Medicare Australia conducts customer satisfaction surveys of employers who registered five months previously and have made at least two payments using the SBSCH. From the time of implementation to 31 May 2012, 17 428 employers have been surveyed. The questions asked in the surveys have changed over time to better tailor the survey⁹⁶, but results from these customer satisfaction surveys have been consistently positive. Table 4.3 summarises these results.

⁹⁶ The change from the 'very easy' and 'easy' ratings occurred because the order of the answers caused some respondents to answer negatively. When Medicare Australia contacted these respondents to ask why they were dissatisfied with the SBSCH, they replied that they were not dissatisfied, but had checked the wrong answer box on their reply.

Table 4.3

Customer satisfaction survey reported results—July 2010 to May 2012

Date range	Question asked	Percentage result
May 2011 to May 2012	Respondents that 'strongly agreed' or agreed' that the SBSCH has reduced the amount of time taken to make their superannuation payments.	96
	Of these, the percentage that said the SBSCH saved three hours or more in time taken to make their superannuation payments.	100
	Respondents that were 'satisfied' or 'extremely satisfied' with the SBSCH.	98
January to April 2011	Respondents that 'strongly agreed' or agreed' that the registration process was easy.	91
	Respondents that 'strongly agreed' or 'agreed' that the payment process was easy.	97
July to December 2010	Respondents that found the registration process 'easy' or 'very easy'.	91
	Respondents that found the payment process 'easy' or 'very easy'.	95

Source: ANAO analysis of Medicare Australia's monthly reports.

Note: The percentages given are an average of the results over those months.

4.32 Customer feedback can also give an indication of the performance of a program. Complaints, compliments and suggestions were handled centrally by Medicare Australia, and under DHS within the Customer Feedback and Performance Analysis Section. Feedback for the SBSCH is monitored, and for the period April 2010 to May 2012, Medicare Australia advised that the SBSCH received 82 items and 16 of these were compliments. Of the 66 complaints, the majority related to login or password issues.

Level of take-up by employers

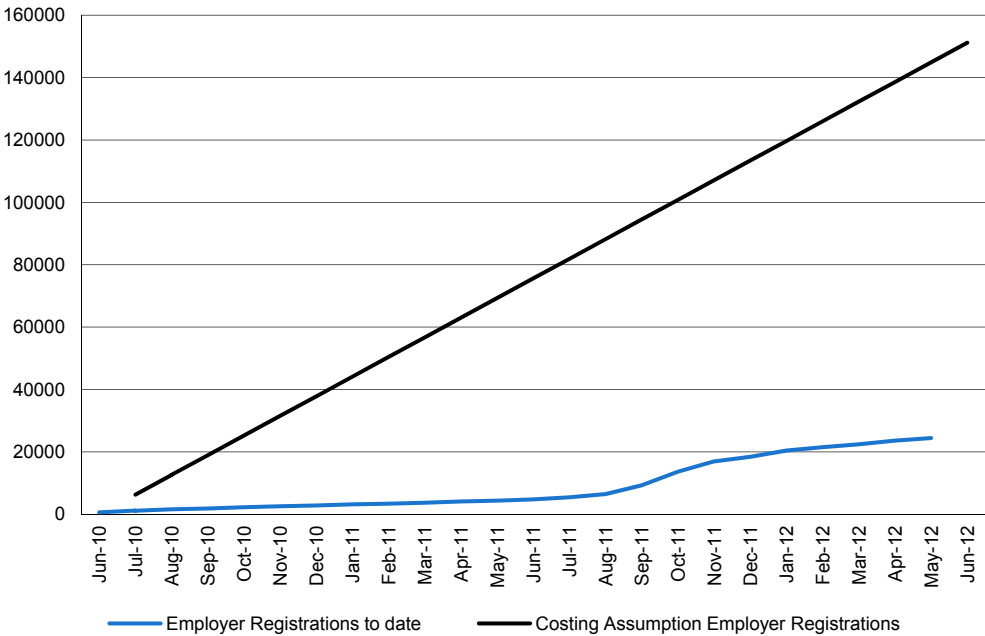
4.33 While the level of take-up by employers is not nominated as a key performance indicator, Medicare Australia includes this information in their monthly status reports to Treasury. As discussed in Chapter 2, the anticipated take-up rate of employers registering to use the SBSCH in the first year was 75 576 (10 per cent of a total population of 755 758). Take-up in the following years was assumed to be 10 per cent in each year, with a total of 30 per cent of the population after three years. These assumptions were used by Medicare Australia after consultation with Treasury, to enable Medicare Australia to

calculate the cost of providing the SBSCH. They are not take-up targets for the SBSCH. However, a comparison with the actual number of registrations shows that only 4781 employers registered in 2010–11 (0.6 per cent of 755 758), and as of 31 May 2012 there were 24 397 employers registered (just over 3 per cent of the targeted population).

4.34 Figure 4.1 shows the cumulative number of actual employer registrations per month from June 2010 to May 2012 against the number of registrations estimated when originally costing the program. The increase in registrations during August 2011 to May 2012 followed an information mail-out, discussed later in this chapter.

Figure 4.1

Cumulative employer registrations—June 2010 to May 2012



Source: ANAO analysis of Medicare Australia's monthly reports.

Note: The employer registration costing estimates are an annual amount. For the purpose of this analysis, the ANAO averaged this annual amount across the year. Registration was assumed to start on 1 July 2010, but employers were able to register prior to this date.

4.35 The low take-up rate against the costing estimates of take-up levels could be explained by a lower potential population of users. In January 2010,

the ATO's Revenue Analysis Branch provided the following advice within the ATO:

- based on data on employers with less than 20 employees from the Australian Bureau of Statistics, we anticipate the base for the take-up rate to be much lower, due to employers with less than 5 employees being unlikely to take advantage of the measure. This reduces the take-up base to 209 000;
- in addition, the take-up rate is likely to be lower. Experience in past measures and projects has shown estimating participation rates is difficult, they are usually incorrect, and they are usually overestimated; and
- that being said, a 10 per cent year one, 15 per cent year two take-up is possible, but the caution must be added that this would require a sound and targeted marketing strategy, and would be challenging.⁹⁷

4.36 The ATO advised that this information was not formally communicated to Treasury or Medicare Australia, although informal discussions may have occurred. Medicare Australia has advised that it did not receive this information.

Communications activities

4.37 As previously noted, Medicare Australia did not have an advertising budget during 2010–11, but did conduct a number of communications activities, including:

- ministerial press releases;
- targeted media promotion to outlets such as national, regional and financial industry print and broadcast media;
- displays in Medicare Australia public offices; and
- displays at small business and accounting trade shows.⁹⁸

4.38 In January 2011, to promote take-up of the SBSCH, Medicare Australia approached the ATO to assist with a promotional letter and brochure mail-out, to businesses with fewer than 20 employees. The ATO had access to this information through employee payment summaries lodged by these

⁹⁷ Information provided by the ATO.

⁹⁸ Apart from between 17 July to 21 August 2010 when the Government entered caretaker mode due to the calling of the federal election.

businesses. To accommodate information privacy considerations, the ATO agreed to conduct a co-branded mail-out on behalf of Medicare Australia.⁹⁹ Approximately 683 000 letters were sent out in a rolling program by state. The mail-outs were sent in the four months between August and November 2011. Medicare Australia paid the ATO \$410 714 in a fee for service arrangement.¹⁰⁰ The 2011–12 SBSCH budget included \$1.5 million for advertising activities, of which the mail-out formed a part.

4.39 Medicare Australia assumed take-up from this mail-out would be one to two per cent of the businesses receiving the mail-out. The actual take-up was approximately 1.9 per cent.¹⁰¹ Registrations increased from 5414 total registrations in the 14 months up to July 2011, to 16 952 registrations as at 31 November 2011, the final month of the four month mail-out. The co-branded mail-out did increase registrations, but it also caused some confusion amongst recipients because of the co-branding arrangements with the ATO. As Medicare Australia is not traditionally associated with superannuation products, some recipients assumed the SBSCH was an ATO initiative. Market research commissioned by Medicare Australia suggests that the ATO branding is more likely to be noticed by employers, as the Medicare Australia ‘brand’ is confusing when used in conjunction with superannuation.

4.40 Before the end of 2011–12, a further collaborative mail-out is being planned between Medicare Australia and the ATO. This will target approximately 500 000 employers, and contain information on the SBSCH (from Medicare Australia) as well as superannuation reform information (from the ATO). The format and co-branding of material was still under decision at the time of the audit.

Small Business Superannuation Clearing House market research

4.41 In July 2011, Medicare Australia commissioned market research for an SBSCH communication strategy. The sample size for the online survey component was 209 small businesses with 19 or less employees, with 145 of

⁹⁹ The ATO’s use of personal information is regulated by the *Privacy Act 1988*. There was no provision for the ATO to provide Medicare Australia with the details of eligible businesses. For this reason, the ATO conducted the mail-out, and the letter included the statement that no personal information was provided to the SBSCH.

¹⁰⁰ The fee for service paid to the ATO was inclusive of Goods and Services Tax.

¹⁰¹ The actual take-up cannot be calculated exactly, as registrations may have occurred from employers who were not included in the mail-out.

these having between one to four employees. When asked how likely they were to use the SBSCH, 97 businesses with one to four employees considered themselves unlikely to use the SBSCH. The reasons given were they:

- were too small a business to make it worthwhile (28 respondents);
- already had a system in place (28 respondents);
- preferred to manage in-house (16 respondents);
- paid directly into superannuation funds (13 respondents); or
- used only one superannuation fund (12 respondents).

4.42 The SBSCH communication strategy of January 2012 still uses a figure of 731 055 eligible small businesses (based on June 2009 figures from the Australian Bureau of Statistics). The most recent Australian Bureau of Statistics *Counts of Australian Businesses* states that at June 2011 there were 739 312 businesses employing less than 20 employees. Of these, 508 674 had one to four employees.¹⁰² Using the ATO's assumption, this puts the potential population of users at 230 638.

4.43 The ANAO sought feedback from external stakeholders during the course of this audit and received comments relating to reasons for low take-up.¹⁰³ Factors identified were:

- lack of promotion and lack of a promotional budget;
- the less than 20 employees (rather than less than 20 FTE staff) being the cut-off, as businesses would not enrol in case their employee numbers grew; and
- small business banking procedures for superannuation payments may be simpler and less time-consuming than the SBSCH process for registering and payments.

Costs of the program

4.44 As previously shown in Table 2.3, the initial budget appropriation of \$4 million for 2009–10 was transferred to Medicare Australia from the ATO.

¹⁰² Australian Bureau of Statistics, *Counts of Australian Businesses, including Entries and Exits*, June 2007 to June 2011, released 31 January 2012.

¹⁰³ These stakeholders were superannuation funds, professional associations and a financial software company.

Allocations for 2010–11 (\$6 million) and 2011–12 (\$6.1 million) were appropriated directly to Medicare Australia, so that the total appropriated was \$16.1 million.

4.45 The appropriation was based on the estimates provided by Treasury regarding employer take-up over three years of operation; the rate of registration of superannuation funds in the same period; and rates of manual and online registration, claim processing and enquiries.¹⁰⁴ Table 4.4 summarises these processing volume assumptions.

Table 4.4

Summary of budget estimates—processing volumes

Estimate	Population	2010–11	2011–12	2012–13
Per annum take-up rate		10%	10%	10%
Employers < 20 employees	755 758	75 576	151 152	226 728
Registering superannuation funds (regulated and self-managed)	400 236	10 000	10 000	
Transaction volumes		830 967	2 077 417	3 323 867
Manual intervention—returns		16 619	41 548	66 477
Enquiries		24 705	53 062	81 681

Source: ANAO analysis of Medicare Australia's project budget allocation request to Treasury, September 2009.

Note: For planning purposes, 2009–10 was devoted to system implementation.

4.46 Staff numbers were also estimated by Medicare Australia, and a comparison of actual reported FTE staff recorded against the SBSCH to the number of FTE staff estimated in planning assumptions is shown in Table 4.5.

¹⁰⁴ Treasury's costings were based on 10 per cent, 15 per cent and 15 per cent take-up assumptions, as discussed in Chapter 2.

Table 4.5

Budget staffing estimates and actual reported full time equivalent staff

	Full Time Equivalent Staff		
	2009–10	2010–11	2011–12
Budget staffing estimates	15.7	30.74	42.68
Actual reported staffing			
National Program Team	0.5	7.0	9.0
Project Delivery Team	6.5	6.5	2.0
Government Business Management	2.0	2.0	2.0
Medicare Providers	1.7	7.5	13.0
Actual Reported Total	10.7	23.0	26.0

Source: ANAO analysis of Medicare Australia's staffing data.

Note: Medicare Australia is unable to provide FTE numbers for the ICT component of the 2009–10 project implementation due to the use of contract staff.

4.47 The ANAO reviewed Medicare Australia's financial information reports for the 2009–10 project implementation, and operation of the SBSCH for 2010–11 and 2011–12 (up until 31 May 2012). Expenditure against the appropriations, as reported by Medicare Australia, is shown in Table 4.6.

Table 4.6

Comparison of budget to actual reported expenditure for the Small Business Superannuation Clearing House

Year	Expenditure type (\$'000)			
		Operating	Capital	Total
2009–10	Budgeted	1530	2470	4000
	Actual direct expenditure	2297	1425	3722
	Corporate overhead	382		382
	Total Reported Expenditure	2679	1425	4104
	<i>Over/ (under) spend</i>	1149	(1045)	104
2010–11	Budgeted	5333	667	6000
	Actual direct expenditure	3386	1228	4614
	Corporate overhead	742		742
	Total Reported Expenditure	4128	1228	5356
	<i>Over/ (under) spend</i>	(1205)	561	(644)
2011–12	Budgeted	6100		6100
	Actual direct expenditure to 31/5/12	3884		3884
	Corporate overhead ¹	906		906
	Anticipated direct expenditure 1/6/12-30/6/12	1189		1189
	Total Reported Expenditure	5979		5979
	<i>Anticipated over/ (under) spend</i>	(121)		(121)
	Total budgeted	12 963	3137	16 100
Program total	Total Reported Expenditure (including anticipated expenditure)	12 786	2653	15 439
	<i>Over/ (under) spend</i>	(177)	(484) ²	(661)

Source: ANAO analysis of Medicare Australia's financial information reports.

Notes: 1. The 2011–12 corporate overhead represents a full year.

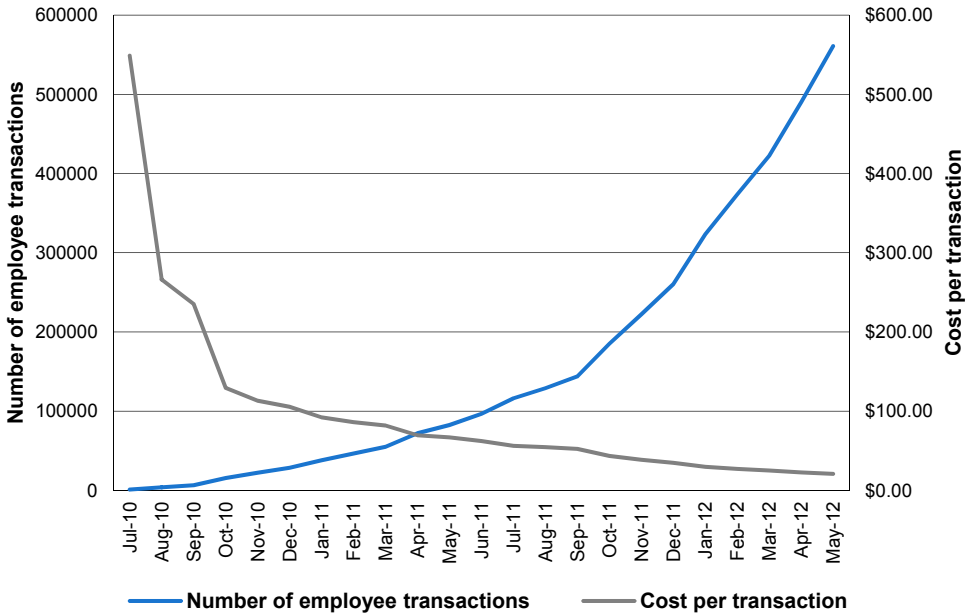
2. Medicare Australia has advised that approval was given to carry forward \$483 000 in capital funding to 2011–12 from previous underspent capital funding.

4.48 Medicare Australia advised that it allocated \$15.4 million of the \$16.1 million appropriation over the three years, notwithstanding the lower than anticipated take-up levels by employers and lower consequent transaction volumes. Whilst recognising that the SBSCH is provided free of charge and no targets have been set for take-up, on the basis of the funding provided to Medicare Australia and transactions to date (1 July 2010 to

31 May 2012), the cost per employee transaction against the number of employee transactions is shown in Figure 4.2.¹⁰⁵

Figure 4.2

Cost per employee transaction on the basis of funding provided to Medicare Australia—July 2010 to May 2012



Source: ANAO analysis of information provided by Medicare Australia.

4.49 The cost per employee transaction has reduced over time as more employers have registered with the SBSCH. Since the inception of the SBSCH up until 31 May 2012, on average employers have made 3.5 SG contribution payments (24 397 employers made 86 522 employer lodgements). Each lodgement was on behalf of on average 6.5 employees (24 397 employers made payments on behalf of 159 037 employees).

4.50 On the basis of funding provided to Medicare Australia, as of 31 May 2012, the cost per employee transaction was \$20.66, which reflects the increasing volume of transactions being processed.¹⁰⁶ However, this cost still exceeds the cost of similar services provided by the private sector (which can

¹⁰⁵ The calculation is based on the pro rata appropriation of \$11.6 million for the period 1 July 2010 to 31 May 2012, divided by the 561 010 payments made for employees in the same period.

¹⁰⁶ As at 31 May 2012 the ANAO calculated the cost per employer contribution payment as \$134.

range from \$0.40 to \$3.00).¹⁰⁷ On original take-up assumptions, costs per employee transaction would have been \$4.24 as at 31 May 2012, much closer to the fees charged by the private sector. Direct comparison of the fees charged by the private sector with the costs of providing the full SBSCH service is not possible. The private sector has the ability to bundle services and apply economies of scale as a result of processing a larger number of transactions. However, for the cost per employee transaction to reduce to levels similar to the fees charged by the private sector, take-up of the SBSCH would need to increase by around 120 000 employers.¹⁰⁸

Future funding

4.51 Medicare Australia has advised that the following funding for the SBSCH has been included in the department's appropriation base for forward years: 2012–13, \$6.147 million; 2013–14, \$6.245 million; 2014–15, \$6.397 million; and 2015–16, \$6.616 million.

Conclusion

4.52 Medicare Australia is providing a system that allows employers to register and make their superannuation payments. High-level governance of both the administrative functions and the ICT functions are effective, and align with relevant government guidelines. The ICT systems have a sound security framework, information access controls and access management controls. Security logging and user access logging for the database and the SBSCH application are in place; however, not all monitoring and review processes have been formally documented. Medicare Australia advised that it has commenced documenting these processes.

4.53 Data transfer mechanisms including payments, returns processing and client registrations, have system and manual controls in place. The ANAO's analysis of registrations, payments, payments returned to employers and contribution instruction data from the period 24 May 2010 to 5 March 2012 gave results comparable to those reported by the SBSCH in monthly status reports. Manual controls over rejections and returns processing are also

¹⁰⁷ These costs can be in addition to registration fees, or provided when combined with additional services (such as bookkeeping services), and can also reduce with a greater number of transactions. Chapter 1 provides more details on industry pricing variations.

¹⁰⁸ The ANAO estimated the 120 000 employers as an approximation of the difference between the original estimate of take-up as at 31 May 2012 and actual take-up at that date.

effective. Client registration controls, for validating the eligibility of employers using the SBSCH, and for validating employer and superannuation funds identities, are also in place. Review of the SBSCH's *Employer Spotchecks* showed that record keeping and monitoring could be improved. Medicare Australia is refining the *Spotcheck* process in order to improve this information management in the future.

4.54 Medicare Australia monitors its service standards for the SBSCH and these have been exceeded by the program to date.¹⁰⁹ Medicare Australia also conducts surveys of the SBSCH client base. Results for customer satisfaction have been consistently positive, with the users of the system indicating high levels of satisfaction with the scheme. For the period 1 April 2010 to 31 May 2012 the SBSCH received only 66 complaints.

4.55 A broad-ranging communications campaign was conducted in 2010–11 but take-up continues to be low compared to the projected take-up. A mail-out campaign undertaken in conjunction with the ATO to approximately 683 000 eligible employers during August to November 2011 resulted in an increase in registrations. Action to address the low take-up of the service, such as the mail-out campaign, could have been undertaken earlier.

4.56 In the first 12 months of SBSCH operations, take-up was 0.6 per cent, instead of the estimated 10 per cent, of the population of 755 758 (4 781 employers against 75 576 estimated employers). Take-up to date has been only 16.8 per cent of the original estimates used when costing the program.¹¹⁰ Analysis by the ATO would suggest that take-up assumptions may have been overestimated.

4.57 As at 30 June 2012, Medicare Australia will have received \$16.1 million in appropriations which was calculated based on estimates of employer take-up and the number of transactions. The level of take-up for the SBSCH is well short of the figures Medicare Australia used to cost the program, and outlined in the original budget measure. The number of transactions is also much lower than those costed, with 561 010 payments for employees as at 31 May 2012, as opposed to the 2 735 265 costed for the same period (20.5 per cent of planned, assuming straight-line accumulation).

¹⁰⁹ The three service standards are: phone calls answered within 30 seconds; payments made within two working days; and customer feedback acknowledged and answered within 10 days.

¹¹⁰ 24 397 employers in the 23 months to 31 May 2012 against 144 854 employers estimated for the same period—assuming straight-line accumulation.

4.58 Financial information provided by Medicare Australia accounts for the spend against the appropriation, but the financial results highlight the need for a review of the program's funding in view of the levels of take-up for the scheme, which are considerably lower than originally estimated during the costing process. In addition, despite the ATO's calculation of the eligible employer population, and later, Medicare Australia's own market research, there is no evidence of: the size of the population of potential users being formally downgraded in relation to the SBSCH; budgets being revised; or the program's viability and cost-effectiveness being re-assessed. Given that there is a mature private sector clearing house market, there would also be benefit in Treasury reviewing the regulation and competition impacts of the scheme.

Recommendation No.1

4.59 The ANAO recommends that Treasury, in consultation with the Department of Human Services, review:

- (a) the program's funding arrangements, incorporating an assessment of actual and estimated take-up and the base level of resources required to deliver the scheme in a cost-effective manner; and
- (b) the regulatory and competition impacts of the scheme, where appropriate in the context of any future advice to the Government on reforms affecting the clearing house.

Treasury response:

Recommendation 1(a). Agree. However, Treasury will need to consider the appropriate timing of the review in the light of pending Government reforms in the superannuation area, notably SuperStream, which are expected to have a significant positive impact on take up of the clearing house service.

Recommendation 1 (b). Agree. The need for a review will be considered in the context of any future advice to Government on reforms affecting the clearing house and Treasury's ongoing monitoring of the operation of the program.

DHS response:

Agree. The department will work with Treasury to implement the recommendation.

ATO response:

Noted.

5. Governance Arrangements Supporting the Small Business Superannuation Clearing House

This chapter examines the governance arrangements supporting the SBSCH program, including the arrangements between Medicare Australia, Treasury and the ATO and the monitoring and reporting against the program's objectives.

Introduction

5.1 The SBSCH program is supported primarily through an inter-agency arrangement between Medicare Australia and Treasury. Treasury has policy responsibility for the program and is the purchaser of services from Medicare Australia. The ATO is a stakeholder in the operation of the program, with responsibility for the administration and regulation of employers' SG obligations.

5.2 In this context, the ANAO examined whether there was an effective governance framework that included the inter-agency agreement, as well as: oversight of the SBSCH through Medicare Australia's internal governance framework; and an appropriate performance management and reporting framework.

Agreements between agencies

5.3 Treasury and Medicare Australia entered into a Service Arrangement on 17 June 2010 that established the framework for the respective roles and responsibilities of each agency, and reporting on the outputs and outcomes of the services.¹¹¹

5.4 The Service Arrangement between Treasury and Medicare Australia sets out a clear statement of each agency's roles, functions and deliverable services. It was developed in parallel with the project implementation, and was in place prior to the full clearing house functions commencing on 1 July 2010 but not for the registration of employers from 24 May 2010. A summary of the

¹¹¹ An exchange of letters between DHS and Treasury took place in late June 2011 in relation to the change of governance arrangements that would apply after the integration of Medicare Australia into DHS on 1 July 2011.

main roles and responsibilities of Treasury and Medicare Australia under the Arrangement is outlined in Table 5.1.

Table 5.1

Service Arrangement between Treasury and Medicare Australia relating to the Small Business Superannuation Clearing House

Treasury	Medicare Australia
Main roles and functions	
<p>Responsible for all policy matters, including:</p> <ul style="list-style-type: none"> • Cabinet submissions; legislative drafting instructions, and obtaining relevant advice from other departments/agencies; preparation of policy guidelines; preparation of ministerial correspondence; and briefings for the portfolio to the Minister and the Government on policy issues; • establishing agreed policy positions with other departments where there are overlapping policy responsibilities which may affect service delivery; • consulting early with Medicare Australia on new or amended legislation or policy guidelines which may affect service delivery, prior to consideration by a minister or Cabinet; and • providing prompt and timely notice or advice to Medicare Australia in listed circumstances. 	<p>Responsible for service delivery matters, including:</p> <ul style="list-style-type: none"> • providing services to support Treasury's business needs and service delivery requirements; • providing specified management information reports; • providing feedback on proposed legislation, Cabinet submissions, policy guidelines and program initiatives to assist the Treasury and support policy development; • being responsive to the business needs of the Treasury; • improving service quality, effectiveness and efficiency; • developing training and information materials for Medicare Australia's personnel; and • delivering the services within available resources, accessing funding appropriated for that purpose, and according to its responsibilities under the Service Arrangement.
Performance	
<p>Assess the SBSCH program performance or service delivery performance as outlined in each program schedule.</p>	<p>Provide Treasury with all reasonable assistance to enable Treasury's assessment.</p>

Source: ANAO analysis of information provided by Medicare Australia.

5.5 The Service Arrangement does not state the objectives of the program, and as a consequence, does not support the tracking of outputs and outcomes against objectives. This omission has consequences for Treasury's responsibility to monitor the performance of the SBSCH, which is discussed later in this paper.

Medicare Australia's relationship with the ATO

5.6 There is currently no formal agreement in relation to the SBSCH between Medicare Australia and the ATO, notwithstanding the ongoing engagement between the two agencies. Assistance provided by the ATO to Medicare Australia in respect of the SBSCH to date has included:

- promotional mail-outs to small business employers;
- membership of the Superannuation Clearing House Working Group;
- the provision of superannuation product advice;
- liaison, review and clearance on Medicare Australia's communications products such as scripting (for example responses for exceptions) and Frequently Asked Questions;
- advice regarding mandatory information requirements (for example in respect of Tax File Numbers);
- inclusion of information about the SBSCH in relevant ATO communication products¹¹²; and
- changes to legislation (for example, the *Superannuation Guarantee (Administration) Act 1992*).

Role of ATO in regulating employer compliance with SG obligations

5.7 The ATO advised that SG obligations are the responsibility of the employer and they are not required to report to the ATO any SG payments made. Rather, the obligation is to report to the ATO when they have not paid SG. The ATO assumes that employers that use the 'approved' clearing house provided by Medicare Australia are more likely to comply with their SG obligations.

5.8 In a report to the Assistant Treasurer in March 2010 reviewing the ATO's administration of the SG Charge, the Inspector-General of Taxation recommended that the ATO engage with superannuation funds and clearing houses to obtain information for the purposes of identifying potential SG non-compliance.¹¹³ The Inspector-General considered this important to

¹¹² Such as the ATO publication, *Super-What Employers Need to Know*, <<http://www.ato.gov.au/content/00108513.htm>> [Accessed 13 April 2012].

¹¹³ Inspector-General of Taxation, A Report to the Assistant Treasurer, *Review into the ATO's administration of the Superannuation Guarantee Charge*, March 2010, pp. 48–49.

reduce the time taken to detect non-compliance, and that increased monitoring by the ATO would help to ensure that compliant employers do not face a financial disadvantage against non-compliant competitors.

5.9 The ATO agreed with the recommendation and responded:

The ATO encourages people in the superannuation industry and others to provide information on employers at risk of non compliance with their SG obligations. This is done by encouraging representative bodies, through industry forums, etc, to utilise our 'third party referral' process.

The ATO is also one of the stakeholders involved in the consultation process undertaken by Medicare on their administration of the Clearing House initiative. Once appropriate legislation has passed we will explore with Medicare the feasibility for information sharing between the two agencies.¹¹⁴

5.10 The ATO advised that a high-level Memorandum of Understanding is currently being negotiated and is expected to be finalised in late 2012. This will outline any data-sharing arrangements.

Medicare Australia's outcome and program structure

5.11 Prior to 1 July 2011 Medicare Australia reported on its performance against one Portfolio Budget Statement outcome:

Access to government health and other payment and information services to the Australian public and providers through convenient and efficient service delivery.

5.12 The SBSCH contributed to the delivery of this outcome through program component 1.3—Delivery of Other Benefits and Services. Medicare Australia's objective under this program was to deliver nationally consistent services and programs with convenient access and timely and accurate services through efficient and effective service channels. Successful delivery of this program was measured by the key performance indicator (KPI) of improved electronic take-up of services:

Program 1.3 Key Performance Indicators

In line with the objective of this program, Medicare Australia will continue to increase the convenience and ease of access to services within these programs through improving electronic take-up. In addition, Medicare Australia will

¹¹⁴ The legislation referred to is the *Tax Laws Amendment (2010 Measures No 1) Bill 2010*, which established Medicare Australia as the provider of the SBSCH.

continue to implement process improvements within its operations to increase the efficiency of program delivery.

No target or measure was set specifically for the SBSCH program.

5.13 With Medicare Australia's integration under the *Human Services Legislation Amendment Act 2011* into DHS from 1 July 2011, Medicare Australia advised that all budgeting and reporting in relation to its services is now included within DHS. The integrated agency outcome is:

Support individuals, families and communities to achieve greater self-sufficiency; through the delivery of policy advice and high quality accessible social, health and child support services and other payments; and support providers and businesses through convenient and efficient service delivery.

5.14 The SBSCH program contributes to the delivery of program component 1.1—Services to the Community, the objective of which is the support of providers and businesses by a service delivery system that facilitates payment transfers, referrals and other services.

5.15 For the purposes of the 2011–12 Portfolio Budget Statements, the department moved from specific KPIs for DHS, Medicare Australia and Centrelink to one set of KPIs for the integrated department. These KPIs do not specifically cover the SBSCH.

Medicare Australia's governance structure

5.16 Medicare Australia's move towards its anticipated July 2011 integration within the Human Services portfolio commenced in 2009–10, coinciding with the planning and implementation of the SBSCH program. As stated in its Annual Report for that year, its Strategic Plan 2010–11 was developed in collaboration with the DHS and Centrelink, to start aligning its service delivery with that of the portfolio. During 2009–10 Medicare Australia's executive management team consisted of the Chief Executive Officer and two Deputy Chief Executive Officers, supported by nine general managers.

Corporate Management Committee

5.17 The primary governance committee in Medicare Australia was the Corporate Management Committee, the role of which was to provide strategic advice to the Chief Executive Officer. This committee had overarching responsibility for overseeing the implementation of the SBSCH program. Two internal committees supported the Corporate Management Committee to

ensure that Medicare Australia's business proceeded efficiently during the portfolio integration process. These were the:

- Business Management Committee—to provide governance and appropriate decision-making for strategic issues, including corporate projects, that impacted on business and operational performance in Medicare Australia; and
- Compliance Committee—to provide governance and appropriate decision-making for Medicare Australia's compliance responsibilities.

5.18 The Superannuation Programs Steering Committee was established in May 2010 and includes senior executives from relevant Medicare Australia branches including Business Services, Finance, Applications, Network Operations and People Services.

Superannuation Programs Steering Committee

5.19 The Superannuation Programs Steering Committee is responsible for the overall delivery of Medicare Australia's broader superannuation framework. It first met on 3 June 2010 and covers the Early Release of Superannuation on Compassionate Grounds, and the SBSCH. The Committee's Terms of Reference include:

- the provision of a governance and decision-making forum in relation to program delivery and issues as they emerge;
- authorising an executive-level reporting framework; and
- monitoring the progress of key aspects of programs, including budget and resource matters, risks, and the progress of mitigation strategies for critical issues.

5.20 Committee meetings were initially held weekly in June and July 2010, fortnightly from August 2010 to October 2010, monthly as the operations matured, and six-monthly from March 2012. The ANAO reviewed the meeting agendas, minutes and action items of the Steering Committee. The SBSCH has been closely managed since it went operational on 1 July 2010. The benefit of this oversight was apparent, for example, in the first meeting on 3 June 2010, when the importance of an appropriate communications strategy to the success of the program was recognised.

5.21 The need to establish target numbers for registrations was also discussed in June 2010. The committee noted that a target for registrations had

not been set or sought by Treasury and a query was raised as to the expectation of registration levels. The committee identified two possible sources for target numbers of registrations by reviewing internal briefing material. These were: a 10 000 volume suggested by the Council of Small Business Organisations of Australia as 'a reasonable success rate'¹¹⁵ for registrations in the first 12 months; and the estimated 72 258 take-up rate (or 10 per cent of the eligible population) for the first year provided by Treasury for costing purposes. However, the Committee did not set a take-up target for operations. Such a target may have focused attention on take-up levels, which are considerably lower than the assumptions used for costing the program, as discussed in Chapter 4.

5.22 The Steering Committee monitored monthly status reports in relation to the program and call centre operations, as well as the post-implementation review undertaken by internal audit and the project closure reports.¹¹⁶ The monthly status reports are also provided to Treasury and to the Minister.

Risk management

5.23 A risk management plan was maintained during the project implementation phase of the SBSCH and updated monthly. The subsequent Transition Plan (developed to control the migration from the project implementation phase to 'business as usual') contained an Operations Transition Risk Management Plan. This plan was last updated on 1 July 2010, and considered the risks relevant to that process.¹¹⁷

5.24 With 'business as usual', an operational risk management plan should outline ongoing risks that are regularly reviewed and updated. Medicare Australia has advised that risk management plans are updated each financial year and reviewed at six-monthly intervals. The operations risk management plan for the SBSCH was reviewed in January 2012.

¹¹⁵ This was discussed in a Senate Economics Legislation Committee hearing, 3 March 2010, at p. E12, <<http://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:committees%2Fcommbill%2F12864%2F0000>> [Accessed 27 April 2012].

¹¹⁶ The monthly status reports provide brief summaries detailing numbers of registrations, enquiries, payments, returns (exceptions) and complaints. They also provide the results of customer satisfaction surveys as well as instances of media interest and other communications. The reports include graphical illustrations of statistics over time.

¹¹⁷ These risks were: managing communications; ICT systems to function as planned/required; responding appropriately to demand; managing the exceptions process; and managing the password process.

5.25 At the higher level, a Divisional Risk Management Plan is maintained for the Business Services Division. This covers all the Division's responsibilities across both the health and non-health sectors and only has minor reference to the SBSCH. The last six-monthly review, in August 2011, reported that no update was needed as the plan had stayed current.

Performance management and reporting

5.26 Under the Service Arrangement between Treasury and Medicare Australia, Treasury is responsible for assessing the SBSCH's program or service delivery performance. Medicare Australia is then responsible for assessing the performance of the operation of the SBSCH. The ANAO reviewed internal and external reporting of SBSCH performance.

5.27 The key objectives of the SBSCH were stated in the Project Plan developed by Medicare Australia but, as already noted, are not detailed in the Service Arrangement with Treasury. These are to:

- provide a free clearing house service for employers with less than 20 employees by July 2010, including the ability to register for the service by May 2010;
- reduce the time and paperwork burden for employers of paying contributions into numerous funds;
- assist employers in meeting their obligations under Superannuation Choice;
- promote standardised information sharing and e-commerce within the superannuation industry; and
- encourage take-up of e-commerce by small businesses through their experience with the Medicare Australia SBSCH.

Internal performance monitoring and reporting

5.28 Within the SBSCH, the key means of monitoring and reporting performance internally is the monthly status report in relation to the program and call centre operations, provided to the Steering Committee. The status reports give outcomes against internal operational service standards

(discussed in Chapter 4).¹¹⁸ Each of these measures has a target against which performance is compared—for example, 98 per cent of payments are processed within two working days—and they provide an indicator of operational performance.

5.29 The reports also summarise transactions such as the number of registrations, enquiries and payments, and detail the feedback received from customer satisfaction surveys—providing an indicator of the extent to which the SBSCH saves time for small business employers. To this extent the report provides information appropriate to measuring the program’s success in achieving its objectives, although there are no measurable targets around tangible aspects of the program such as take-up levels. The appropriate alignment of performance measures is discussed further in the following sections.

External reporting of performance

5.30 External reporting of results against the specific performance measures set out in an agency’s Portfolio Budget Statements is generally via an agency’s annual reports. As previously noted, there are no specific KPIs for the SBSCH in Medicare Australia’s or DHS’s Portfolio Budget Statements. The 2010–11 Medicare Australia annual report does, however, include some data in relation to the SBSCH under performance highlights for Outcome 1, Program 1.3—Delivery of Other Benefits and Services. This information reflects the numbers registered and contributions processed to 30 June 2011, and customer satisfaction survey results on time saved and ease of use.

¹¹⁸ The standards are: 90 per cent of telephone calls answered within 30 seconds; 96 per cent of correctly made payments are processed within two working days; and 95 per cent of customer feedback is acknowledged and resolved within 10 days.

Reporting to Treasury under the Service Arrangement

5.31 The Service Arrangement between Medicare Australia and Treasury sets out the following requirements in relation to performance reporting:

8. PERFORMANCE

8.1 Medicare Australia agrees to provide the Treasury with all reasonable assistance to enable the Treasury to assess the Small Business Superannuation Clearing House Program performance or service delivery performance as outlined in each Program schedule.

8.2 Medicare Australia also agrees that the Treasury may at its own cost, and upon approval of the CEO, commission audits of Medicare Australia's operations and performance in relation to the Services delivered on behalf of the Treasury.

5.32 The following three KPIs are set out in the Service Arrangement¹¹⁹:

- provide management information reports (KPI 1);
- meet reasonable customer expectations (KPI 2); and
- move employees' money through the clearing house in a reasonable time (KPI 3).

5.33 Table 5.2 outlines the reporting requirements set out in Schedule 2 of the Service Arrangement. The monthly report provided to Treasury and the Minister in accordance with Item 1.3(b) is the monthly status report provided to the Steering Committee and already discussed in paragraph 5.28.

Table 5.2

Service Arrangement Schedule 2—program monitoring for Key Performance Indicator 1

Item	Management information reports to be provided to Treasury by Medicare Australia
1.3 (a)	The executive summary of the Medicare Australia annual Customer Satisfaction Survey, together with any parts of the survey relating to the SBSCH Program.
1.3 (b)	A monthly report showing the number of employers registered, employees registered, employees paid and the value of amounts paid.
1.3 (c)	Ad hoc reports in response to specific data requests as needed, subject to data availability and negotiation between Treasury and Medicare Australia.

Source: ANAO analysis of information provided by Medicare Australia.

¹¹⁹ Appendix 1 of this audit report outlines the aims, measures, targets and reporting requirements against these KPIs.

5.34 These KPIs do not measure performance against the objectives of the clearing house (outlined in paragraph 5.27). For example:

- KPI 1—the provision of management information reports—is a measure of program management but is not a measure of program performance; and
- KPI 2—95 per cent of complaints acknowledged and a response provided within a certain time—is not the proportion of customers who lodge a complaint.

5.35 As discussed in Chapter 4, the reported results of the monthly customer satisfaction survey carried out by SBSCH (as opposed to the annual survey carried out by Medicare Australia and referred to at item 1.3(a) in Table 5.2 above) are used to measure the ‘reduction of red tape’ for employers using the clearing house. In measuring achievement against this objective, there are no comparative assessments made between the SBSCH and the private sector.

Monitoring of SBSCH performance by Treasury

5.36 The Service Arrangement puts the onus for assessing the performance of the SBSCH on Treasury. KPIs for the SBSCH set out in the Service Arrangement provide an indicator of operational performance (provide management reports, meet reasonable customer expectations, and make payments in a reasonable time). These are appropriate for the agency delivering the SBSCH. However, there are no KPIs or performance targets that measure whether the SBSCH is achieving its objectives.

5.37 The information Medicare Australia provides to Treasury in the monthly status reports would allow some elements of the SBSCH’s objectives to be measured. This data would also allow Treasury to measure two key concerns of delivering a service—the cost effectiveness of the program and whether the needs of the market are being met (take-up rates). However, there are no KPIs that address these issues and Treasury does not monitor them.

5.38 As previously discussed, the SBSCH is mentioned by Treasury in connection with ‘Stronger Super’ policy development, and this creates potential increased demand for the service in the future. To ensure that the SBSCH is responsive to these policy directions and to its target market of small employers, there would be benefit in including a focus on cost-effectiveness and take-up.

Conclusion

5.39 Effective governance arrangements are in place for the SBSCH including oversight by a steering committee. Risk management plans have been completed for both the SBSCH and the Business Services Division. Within the SBSCH, internal performance monitoring and reporting is provided to the Superannuation Programs Steering Committee. Publically available external reporting of the program's performance is limited and only briefly mentioned in the agency's annual report.

5.40 The ATO provides advice to Treasury on policy issues relating to superannuation and co-sponsors, with Medicare Australia, mail-outs to potential users of the SBSCH. In view of this continuing engagement, it would be appropriate for there to be a bilateral agreement between DHS and the ATO. The ATO has advised that a high-level Memorandum of Understanding is currently being negotiated.

5.41 Governance for the SBSCH is provided jointly by two key agencies, Treasury and Medicare Australia. A service arrangement sets out each agency's respective roles and responsibilities for the scheme, including reporting requirements. Under the arrangement, Treasury is responsible for policy and performance monitoring, and Medicare Australia is the service delivery agency.

5.42 KPIs for the SBSCH set out in the Service Arrangement with Treasury measure operational performance, which is appropriate for the delivery agency. However, there are no KPIs that address the key issues of cost-effectiveness and take-up levels. To meet the KPI on reporting, Medicare Australia provides a copy of its monthly status report to Treasury and the Minister for Financial Services and Superannuation. This data does allow the measurement of take-up and cost-effectiveness. There would be benefit in Treasury conducting a review of the program's KPIs to include an appropriate focus on cost-effectiveness and take-up levels.

Recommendation No.2

5.43 The ANAO recommends that Treasury, in consultation with the Department of Human Services, revises the Service Arrangement relating to the Small Business Superannuation Clearing House Program to include appropriate key performance indicators for take-up and cost-effectiveness.

Treasury response:

Agree. Treasury will consult with the Department of Human Services on appropriate key performance indicators having regard to the objectives of the program.

DHS response:

Agree. The department will work with Treasury to implement the recommendation.

ATO response:

Noted.



Ian McPhee

Auditor-General

Canberra ACT

22 June 2012

Appendices

Appendix 1: Agency responses

Treasury response to the recommendations of the proposed audit report on the Small Business Superannuation Clearing House (SBSCH)

ANAO recommendation	Treasury response
Recommendation 1(a)	Agree. However, Treasury will need to consider the appropriate timing of the review in light of pending Government reforms in the superannuation area, notable SuperStream, which are expected to have a significant positive impact on take up of the clearing house service.
Recommendation 1(b)	Agree. The need for a review will be considered in the context of any future advice to Government on reforms affecting the clearing house and Treasury's ongoing monitoring of the operation of the program.
Recommendation 2	Agree. Treasury will consult with the Department of Human Services on appropriate key performance indicators having regard to the objectives of the program.

Summary paragraph

Treasury notes the ANAO's findings that the SBSCH provides a free superannuation clearing house service that is well administered and well regarded by the businesses that use it and the superannuation funds that receive contributions through it, meeting the primary objective of the program.

Treasury also notes that the clearing house program has been operating for less than two years and that, during that period, take up of the service has increased as a result of awareness raising initiatives undertaken by the Department of Human Services. Treasury expects that pending Government reforms in the superannuation area will have a further positive impact on take up of the program in coming years, leading to a reduction in the average cost of delivering the service.

Department of Human Services Formal Comments

The Department of Human Services (the department) welcomes the Australian National Audit Office findings that the design, development, and implementation of the Small Business Superannuation Clearing House (the Clearing House) was successful, that it continues to be well administered and that it consistently exceeds service standards. The audit acknowledges the excellent stakeholder relationship established with the Treasury during the implementation of the program and that the program is highly regarded by industry stakeholders and users of the system.

The department agrees that caution should be exercised when making comparisons between fees charged by the private sector and the current costs per transaction for the Clearing House. The Clearing House is currently in its first two years of operation and has experienced increased take-up by small businesses following implementation of an awareness strategy. This increase is expected to continue and will significantly reduce the cost per transaction as more small businesses use the service.

The department agrees with both recommendations and will work with Treasury to implement them.

ANAO Performance Audit: Small Business Superannuation Clearing House – ATO response

ANAO Recommendation No. 1	ATO Response
The ANAO recommends that Treasury, in consultation with the Department of Human Services review: a the program's funding arrangements, incorporating an assessment of actual and estimated take-up and the base level of resources required to deliver the scheme in a cost effective manner; and b the regulatory and competition impacts of the scheme.	Noted.
ANAO Recommendation No. 2	ATO Response
The ANAO recommends that Treasury, in consultation with the Department of Human Services, revises the Service Arrangement relating to the Small Business Superannuation Clearing House Program to include appropriate key performance indicators for take-up and cost-effectiveness.	Noted.

Summary of Tax Office's response
The ATO welcomes this review. We note the two recommendations directed to The Treasury and the Department of Human Services.

Appendix 2: Key Performance Indicators for the Small Business Superannuation Clearing House

KPI	Aim	Measure	Target	Report
KPI 1—Provide Management Information Reports	To meet reporting obligations as specified in clause 1.3 of program schedule 2.	Provision of Management Information Reports in accordance with clause 1.3 (a) and (b).	>80 per cent	Annually, within one month of year ending 30 June.
KPI 2—Meet reasonable customer expectations	To provide quality customer service through Medicare Australia's people, services and information.	The percentage of customers accessing clearing house services who lodge a complaint to Medicare Australia regarding the quality of service in providing the clearing house service. <i>Data collection: Feedback Register</i>	95 per cent of complaints acknowledged and a response provided in accordance with Medicare Australia's published performance measures.	Annually, within one month of year ending 30 June.
KPI 3—Move employees' money through the clearing house in a reasonable time	To provide a service offering which allows superannuation monies to be moved through the clearing house quickly in a high proportion of cases.		96 per cent of correctly made payments are processed within two working days.	Monthly breakdown to be provided annually, within one month of year ending 30 June.

Source: ANAO analysis of information provided by Medicare Australia.

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