

The Auditor-General
Audit Report No.36 2004-05
Performance Audit

Centrelink's Value Creation Program

Australian National Audit Office

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Canberra ACT
9 March 2005

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Centrelink's Value Creation Program*.

Following its tabling in Parliament, 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 'P. J. Barrett', is positioned above the printed name.

P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Foreword

This report on Centrelink's Value Creation program is one in a series of reports that examine Centrelink's customer¹ feedback systems. The other reports in the series cover Centrelink's: Customer Charter and community consultation program; customer satisfaction surveys; complaints handling system; and review and appeals system. There is also a summary report that brings together the findings and recommendations of each of the reports, and provides an overall audit opinion in respect of Centrelink's customer feedback systems.²

Centrelink's prime responsibility is to deliver the Government's social policy agenda, which, until October 2004, occurred mainly as part of its Business Partnership Agreement (BPA) with the Department of Family and Community Services (FaCS).³ The agency also provides many other services and, in 2003–04, delivered products and services on behalf of 25 Commonwealth and State client agencies, involving total annual expenditure of approximately \$60 billion. Centrelink has over 25 000 staff and delivers services through a network of 15 Area Support Offices, 321 Customer Service Centres and 26 Call Centres located across Australia.

In 2003–04, Centrelink delivered services to 6.5 million customers, or approximately one-third of the Australian population. Customers include retired people, families, sole parents, people looking for work, people with disabilities, carers, Indigenous Australians⁴ and people from diverse cultural and linguistic backgrounds (DCALB).⁵ Revenues to Centrelink for the sale of its services totalled \$2.2 billion in 2003–04. FaCS contributed \$2.0 billion of this total.

¹ Customer is a term used by Centrelink throughout the organisation and in its dealings with, predominately, citizens. As such, this and related reports have similarly used the terminology.

² ANAO Audit Report No.31 2004–05, *Centrelink's Customer Feedback Systems—Summary Report*.

³ On 22 October 2004, the Prime Minister announced machinery of government changes affecting, among other things, the administration of policy relating to income support payments and related programs. Previously, Centrelink was located in the FaCS Portfolio and, while it had agreements in place with other agencies such as Department of Employment and Workplace Relations (DEWR) and the Department of Education Science and Training (DEST) for the delivery of some services, the overwhelming bulk of Centrelink's activities related to its delivery of services on behalf of FaCS. As a result of the changes announced by the Prime Minister, Centrelink is now part of the newly established Department of Human Services Portfolio. In addition, DEWR now has policy responsibility for the delivery of working age income support payments (including Newstart, Parenting Payment (partnered and single), Youth Allowance for non-students, Disability Support Pension and Mature Age Allowance) and DEST has policy responsibility for income support payments for students (including Youth Allowance for students which had previously been administered by FaCS).

⁴ 'Indigenous Australian' in this report means Aboriginal and Torres Strait Islander peoples.

⁵ DCALB is a term used by Centrelink to describe people of diverse cultural and linguistic background, other than Indigenous Australians.

The high number of customers, their reliance on Centrelink payments, and the \$2.2 billion service delivery costs, coupled with the \$60 billion in customer payments, require an assurance to the Parliament, client agencies, customers and the community, inter alia, that Centrelink's service delivery processes are readily accessible, timely and reliable. In addition, that assurance should encompass Centrelink obtaining and valuing the views of its customers, as well as using this information and other data sources to identify areas for improvement and cost savings.

The ANAO has previously conducted an extensive series of audits involving Centrelink. These audits have primarily investigated the efficiency and effectiveness of the payment and administration of various types of social security payments. The ANAO has not previously examined Centrelink's processes for promoting customers' rights, nor its systems for obtaining and responding to customer feedback.

Customer feedback systems are an important element in obtaining, analysing and reporting on customer views and experiences. The use of such information has the potential to improve an organisation's service delivery, and consequently increase customers' willingness to engage with the organisation. Using customer feedback may also assist in the identification of systemic problems with agency practices and procedures, which could result in cost savings from the development of better processes.

Centrelink, with over six million customers, has invested significant resources in a range of customer feedback systems, and gathers large amounts of information regarding customer experience. While Centrelink provides services to almost a third of the Australian population covering people from all walks of life, a number of its customers are the most vulnerable in our society, and are those who have a heavy dependence on Centrelink. Ensuring that these customers are aware of, and use, Centrelink's feedback systems is an added challenge for the organisation.

This series of reports examines Centrelink's major customer feedback systems, and makes a number of recommendations on ways to improve the systems to better obtain and utilise the allied information, with a view to capturing better the potential for service improvement and cost savings, resulting in more efficient and effective program outputs and outcomes.



P. J. Barrett
Auditor-General

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Abbreviations

ANAO	Australian National Audit Office
ANU	The Australian National University's Research School of Social Sciences
ASO	Area Support Office
ATO	Australian Taxation Office
AWT	Australians Working Together
BIP	Business Improvement Plan
BPA	<i>FaCS–Centrelink Business Partnership Agreement 2001–2004</i>
CC	Call Centre
CEO	Chief Executive Officer
CPGs	Commonwealth Procurement Guidelines
CSC	Customer Service Centre
CSDA	Commonwealth Services Delivery Agency
CSO	Customer Service Officer
DCALB	Diverse Cultural and Linguistic Background
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
FaCS	Department of Family and Community Services
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMA Regulations	<i>Financial Management and Accountability Regulations 1997</i>
NVCT	National Value Creation Team
VCG	Value Creation Group Pty Ltd
VCW	Value Creation Workshop

Glossary

Balanced Scorecard	A performance measurement system monitoring performance against key indicators across the goals set out in Centrelink's Strategic Framework.
Business Partnership Agreement	<i>FaCS-Centrelink Business Partnership Agreement 2001–2004.</i> This document provided the basis for the relationship between the two Commonwealth agencies, which is a unique arrangement characterised by purchaser/provider responsibilities as well as partnership and alliance.
Customer Experience Strategy	The Customer Experience Strategy document describes Centrelink's Customer Experience Management Model and uses the model to build the Customer Experience Strategy for 2004-06. The focus is on the customer experience, encompassing the actual physical and emotional experience of Centrelink customers across all moments of contact with Centrelink.
Customer Relations Units	A medium for customers to raise issues and have them resolved, and are the central point for handling customer feedback. This is received in the form of complaints, compliments, suggestions and general information requests.
Guiding Coalition	The Guiding Coalition is Centrelink's internal corporate Board. It comprises all the Senior Executive Staff (SES) officers of Centrelink and meets every six to eight weeks to discuss strategic issues of importance as well as make decisions about Centrelink's management and business directions.
Indigenous Australians	Aboriginal and Torres Strait Islander Peoples.
Value Creation Workshop	VCWs are structured and facilitated focus groups that involve both the customers of the services delivered by Centrelink and the providers of these services (that is relevant Centrelink staff). The workshops are intended to allow customers to provide direct feedback to Centrelink and its staff regarding the services that they receive.

Vulnerable
Customers

Vulnerable customers may include those customers who are homeless; have a drug or alcohol dependency; have low levels of literacy or numeracy; have a mental health condition; are Indigenous; and/or come from a diverse cultural and linguistic background.

Summary and Recommendations

Summary

Background

1. In 2003–04, Centrelink delivered services to 6.5 million customers, or approximately one-third of the Australian population. A number of these customers are the most vulnerable⁶ in our society, and are those who have a heavy dependence on Centrelink.

2. Centrelink has recognised the importance of regularly seeking feedback from its large customer base on the quality of the services provided by the agency's extensive customer service network. Consequently, Centrelink has a number of processes in place from which to obtain customer feedback. Some of these are Centrelink initiated, such as customer surveys; others are customer initiated, such as complaints and use of the review and appeals system. The Value Creation program is another important Centrelink initiated mechanism for obtaining customer feedback.

3. Value Creation Workshops (VCWs) are structured and facilitated focus groups that involve both the 'customers'⁷ of the services delivered by Centrelink and the 'providers'⁸ of these services. The workshops are intended to allow customers to provide direct feedback to Centrelink and its staff regarding the services that they receive.

4. Centrelink, in commenting on the benefits provided by VCWs, stated that: 'the local information that we obtain from the surveys and workshops is proving to be one of the most powerful tools for our customer service centres'.⁹

5. Centrelink's view is that the use of VCWs provides it with a mechanism for 'leveraging cultural change to develop a customer-centric organisation'¹⁰, and that it 'combines market research with cultural change in an experiential learning setting, ensuring a greater degree of learning stick'.¹¹

⁶ Vulnerable customers may include those customers who: are homeless; have a drug or alcohol dependency; have low levels of literacy or numeracy; have a mental health condition; are Indigenous; and/or come from a diverse cultural and linguistic background.

⁷ Customers can include; recipients of social security entitlements, community group representatives and business partners.

⁸ Providers can include Customer Service Officers (CSOs), Centrelink Managers, and Specialist Officers.

⁹ Sue Vardon, (former CEO of Centrelink), '*Best Practice in Federal Government Service Delivery*', *Second International Conference on Caring*, Brisbane (30 March 2000), p.2 cited in <<http://www.valuecreation.com.au/info/vardon.asp>>.

¹⁰ Centrelink, *Regulation 10 Approval for Spending Proposal Summary Paper*, submission to the Minister for Finance and Administration, 22 July 2003, p. 1.

¹¹ *ibid.*

6. More than 1 500 workshops have been conducted since 1997. Centrelink has estimated that 27 000 Centrelink staff members have attended a VCW. Many thousands of customers would also have attended a workshop, as well as numerous community sector representatives.

Audit approach

7. The primary objective of this audit was to examine the effectiveness, efficiency and economy of the Value Creation program as a mechanism for Centrelink to gather, measure, report and respond effectively to customer feedback, and the extent to which Centrelink uses the data obtained to improve service delivery. Centrelink also uses the Value Creation program for other purposes, such as to engender cultural change in the agency. A secondary objective of this audit was to examine the effectiveness of the Value Creation program in achieving the additional outcomes expected of the program by Centrelink.

Key findings

Overview

8. Centrelink commenced its Value Creation program shortly after the agency was established in 1997. Centrelink set up the program with a number of objectives in mind, but advised the ANAO that the pre-eminent purpose was to facilitate cultural change within the organisation to improve the customer focus. However, the program also generates a range of data that Centrelink advised the ANAO was an important component of its customer feedback systems.

Value Creation Program (Chapter 2)

Value Creation Workshops (VCWs)

9. Centrelink's Value Creation program involves the conduct of a range of different sorts of VCWs across the Centrelink network. The basic type of VCW conducted by Centrelink is the Primary or 'Customer Service' Workshop. This type of VCW was the original workshop run by Centrelink starting in 1997 and is still a significant part of the suite of VCW products available and used in the agency. A Primary Workshop involves the staff of an individual Customer Service Centre (CSC), or Call Centre, directly listening to feedback provided by customers who use the services provided by that particular CSC or Call Centre.

Impact of staff involvement

10. During audit fieldwork, the ANAO conducted a number of interviews with external stakeholders regarding the participation of their clients in the VCW process. These stakeholders held the view that, should any of their clients be asked to participate in a VCW, while some would not censor their responses, many would be apprehensive about the presence of Centrelink staff.

11. The issue of a dependency relationship between customers and Centrelink could lead to customers not answering openly during the conduct of a VCW, due to the fear of retribution.¹² Any fear of retribution may potentially be amplified given that Centrelink staff members are present in the same room, and that some of these staff may be those with whom the customers may regularly interact to receive their payments.

12. The ANAO considers that there would be benefit in Centrelink conducting testing to establish whether the presence of staff in VCWs adversely impacts on customers' behaviours. If Centrelink's testing indicates that this is the case, then any information generated by VCWs would need to be used in the context of the possibility that customers are not open about their experiences. Centrelink may also need to identify ways to minimise this impact.

Selection of customers

13. There are no mandated selection procedures for the recruitment of customers to a VCW, though Centrelink guidance outlines options that could be used using a quota approach (such as asking every third person until enough customers have been recruited). The Australian National University's Research School of Social Sciences has advised the ANAO that there is considerable evidence in public opinion surveys to suggest that, where quota sampling is utilised to select respondents, interviewers often select those respondents whom they believe will be the easiest to handle and the most compliant in an interview context. Centrelink staff interviewed by the ANAO indicated that they selected customers from the CSC public contact area whom they felt would be most likely to participate.

14. Centrelink advised the ANAO on 1 September 2004 that 'in addition to selecting customers at random, the customer must be willing and able (literate) to participate'. This may lead to an under-representation of the most vulnerable customers.

¹² 'Fear of retribution' is a term used by both the Commonwealth Ombudsman in the guide, *A Good Practice Guide for Effective Complaint Handling*, and by other stakeholders whom the ANAO interviewed during audit fieldwork.

15. A non-random selection process may lead to the sample becoming biased, and the intelligence obtained by the process being skewed, as well as being potentially unreliable. Therefore, the impact of the selection process needs to be factored into any analysis of data from the VCW.

Selection of staff

16. Centrelink guidance does not specify a mandatory method for staff selection. However, guidance does state that the workshop organiser should canvass staff from each section/team of the relevant CSC, Call Centre or workgroup for attendance.

17. During the course of fieldwork, the ANAO interviewed a number of Centrelink Office Managers who were involved in the recruitment of staff for a VCW. The managers indicated that they would select staff to participate who they felt would most benefit from the 'cultural change' aspect of the VCWs.

Monitoring of the Value Creation program

18. Monitoring of the Value Creation program is important to ensure that any problems with the program, and/or any coverage issues, are quickly identified and corrective action is undertaken. Monitoring also provides assurance that any information obtained from the process is robust and has the potential to provide information about the effectiveness of the program in delivering the outcomes sought from it.

Monitoring of the selection of customers

19. The ANAO found that the process used by a CSC, or Call Centre, in the selection of customers to participate in a VCW is not reported or monitored. The National Value Creation Team (NVCT)¹³ plays no role in monitoring the selection of customers; and receives no information on the selection technique that is used. Without knowing which selection method has been used by VCW organisers, Centrelink cannot determine how representative VCW respondents are of the Centrelink customer base. Information is available on the age and payment type of customers who have participated in a VCW. However, this information is unable to identify whether those customers are the most able, or whether vulnerable customers are under represented, which is a potential outcome of the non-random method of selection.

Monitoring of staff participation

20. Centrelink does not keep any records of the staff members it selects to attend and participate in a VCW. The lack of attendance information prevents Centrelink from precisely establishing the number of staff who have participated in this process, and whether staff have attended multiple VCWs. It

¹³ The NVCT is responsible for the management of Value Creation nationally.

also affects Centrelink's capacity to track whether individual staff have benefited, over time, from their participation in a VCW or VCWs. Lack of information about this participation reduces Centrelink's capacity to objectively determine the overall effectiveness of the Value Creation program in achieving one of its key goals, namely that there has been an improvement in the customer service culture of staff members who have participated in a VCW.

Monitoring of implementation of VCW outcomes

21. After each VCW a report is provided to the CSC containing information obtained from the VCW and detailing outcomes and findings of the VCW. During fieldwork, the ANAO discussed with Centrelink Managers at the Area and CSC level how the outcomes of a VCW were implemented and monitored. The ANAO was not provided with strong evidence in these discussions that these Managers monitored the implementation of outcomes from a VCW, nor did they assess the effectiveness of any activities arising from the VCW.

Monitoring of the location of VCWs

22. The National Value Creation Team (NVCT) plays no role in ensuring the adequate coverage of VCWs across the Centrelink network. The NVCT cannot mandate that particular Area Support Offices (ASOs) undertake VCWs to address any gaps in national coverage. The ANAO found that several ASOs have not held a regular program of Primary Workshops since 2000. This inconsistent coverage of VCWs across the network may impact on the robustness of the national aggregation of VCW data.

23. Given that some ASOs do not undertake a regular program of VCWs, Centrelink is unable to systematically aggregate, analyse and report the values and irritants of the customers these ASOs service, in the manner that it does for ASOs who have undertaken numerous VCWs. Thus the aggregated data is not truly national data.

Reporting of the Value Creation program

24. At the conclusion of every six-month period, ending on 30 June and 31 December of each year, the NVCT collates all the intelligence and findings that have been gathered via Primary Workshops held in the Centrelink network. The NVCT then summarises the feedback that is provided by customers, through VCWs into a 'Value Creation Consolidated Report'.

25. However, the information contained in these reports needs to be used with some caution, given the issues relating to processes used to select customers and staff to participate in VCWs and incomplete national coverage.

26. One of the purposes of the VCW program is to identify customers' values and irritants related to service delivery. Centrelink staff who participate in a VCW undertake to identify areas for service improvement, based on obtaining information from the customers perspective on 'irritants' and other information provided at the workshop. Despite the commitment of Centrelink staff to address these irritants, and subsequently identify areas for service improvement, customers have consistently identified the same four irritants over the last four years. While at the local level there may be differences in sub-categories of irritants, the national level data does not reflect these differences.

27. Centrelink has identified the recurring nature of these reported irritants as being of concern. As identified by Centrelink in its Customer Experience Strategy document¹⁴, the fact that these four irritants keep being identified by customers may indicate that efforts to date to address these irritants have not been completely successful.

28. Given there has been little change in the values and irritants identified by the VCW process over time, and given the resources Centrelink devotes to the VCW program, there may need to be an evaluation of the ongoing value of the process to identify values and irritants.

Costs

29. The ANAO was unable to assess the actual total cost of the VCW program, as Centrelink was not able to provide costings on all of the elements of the program. During fieldwork, the ANAO asked Area and CSC Managers whether they knew the total or average cost of a VCW workshop. Most of the Managers interviewed were unable to provide this information, or even provide a 'guesstimate'.

30. Given that the total cost of the VCW program is unknown, Centrelink is not in a position to evaluate the cost efficiency of the program. Also, without information on the cost of the program, better practice leading to cost savings cannot be identified. The ANAO considers that Centrelink would benefit from better monitoring of the cost of the VCW program, to ascertain relative productivity and cost efficiency, and to achieve future cost savings for greater effectiveness.

31. Customers receive a payment of \$40 each for out of pocket expense for attending a VCW. Centrelink received informal advice from the Australian Taxation Office, which indicated that customers who receive a payment for

¹⁴ The Customer Experience Strategy document describes Centrelink's Customer Experience Management Model and uses the model to build the Customer Experience Strategy for 2004–06. The document states that the focus is on the customer experience, encompassing the actual physical and emotional experience of Centrelink customers across all 'moments' of contact with Centrelink.

participating in a VCW, and who lodged a tax return, would need to declare this payment as assessable income. Centrelink guidance on the conduct of VCWs in some cases is unclear regarding the taxation implications of the payment.

Evaluation of the Value Creation program

32. Significant resources are devoted to the VCW program, and Centrelink places importance on it as 'leveraging cultural change to develop a customer-centric organisation'¹⁵. Further, Centrelink has had a long running contractual relationship with the Value Creation Group Pty Ltd (VCG)¹⁶, including for the provision of consultancy services, licenses to use certain intellectual property owned by the VCG and provision of equipment for the conduct of VCWs. Accordingly, ongoing evaluation of the VCW program would appear warranted to assess the value for money of the program and whether it is delivering the expected outputs and outcomes.

33. An internal audit of the VCW program conducted in 1999 found that there was no system to monitor and evaluate the cost effectiveness of the program. This is still the case. The internal audit did not evaluate whether the VCW program had achieved cultural change within Centrelink, in line with Centrelink's objectives for the program.

34. Centrelink advised on 9 November 2004 that, after more than seven years since the introduction of the Value Creation program, the agency is now to undertake an evaluation of the program's effectiveness in achieving the objectives sought from it by Centrelink. Such an evaluation will enable Centrelink to assess the value for money of the program and assess the appropriateness of continuing the program in its current form.

Value Creation Program Procurement Processes (Chapter 3)

35. The ANAO notes that Centrelink's advice of 22 July 2003 to the Minister for Finance and Administration incorrectly stated that the initial contract with the VCG resulted from an open tender.

36. The only tender process Centrelink has conducted in relation to its contracts with the VCG was a select tender, involving the issue, in April 1997, of a tender brief to six selected tenderers to conduct a one-off learning session in July 1997 for Centrelink's Guiding Coalition. Centrelink subsequently decided to enter into a series of contracts with the VCG in relation to Centrelink's national implementation of a 'High Level Intervention Customer

¹⁵ Centrelink, *Regulation 10 Approval for Spending Proposal Summary Paper*, op. cit., p. 1.

¹⁶ The VCG is an Australian consulting practice based in Eltham, Victoria that provides a number of services, outlined in its Internet homepage <<http://www.valuecreation.com.au/services/default.asp>>.

Feedback Process¹⁷, without conducting any further tender processes or giving any other provider the opportunity to present a proposal to Centrelink in relation to this work.

37. Accordingly, it appears that the case put forward by Centrelink to the Minister for Finance and Administration seeking authorisation under Regulation 10 of the *Financial Management and Accountability Regulations 1997* (FMA Regulations) to enter into the fourth contract¹⁸ with the VCG may not have been entirely accurate.

38. The ANAO considers that there were significant gaps in the evidence relied upon by Centrelink in concluding that the requirements of the FMA Regulations had been met and so making the decision to enter into a further five year contract with the VCG from 1 October 2003. Centrelink:

- made the decision in May 1997 to select the VCG as the successful tenderer, for an initial approved amount of \$47 000, on the basis of a flawed tender process that had originally been conducted to identify a consultant to develop and deliver a one-off-learning session to Centrelink's Guiding Coalition;
- did not provide any opportunity to suppliers other than the VCG to submit a proposal in respect of the work covered by a \$1.875 million contract with the VCG prior to entering the contract, in September 1997, to roll out the Value Creation process across the Centrelink network. That is, to assist Centrelink with the implementation of a national program to achieve the objectives sought from the VCW program;
- has not, at key points, undertaken adequate inquiries to establish that alternative suppliers could not cost-effectively provide other services/products that could achieve the outcomes sought by Centrelink from the Value Creation process;
- has not, up until now, undertaken an evaluation of the cost and cost-effectiveness of the Value Creation program, despite the recommendation of the 1999 internal audit of the VCW program to do so prior to the expiry at the end of 1999 of the extended term of the September 1997 contract;
- has not previously undertaken any evaluation of the impact of the VCW program in terms of achieving its stated objectives,

¹⁷ This is what the implementation of the Value Creation process was called in the November 1997 business case supporting the project-Business case for high level intervention customer feedback process in Centrelink, Customer Services Theme Team, November 1997.

¹⁸ Centrelink signed contracts with the VCG in relation to the conduct of VCWs and the Value Creation program in July 1997, September 1997, April 2001 and October 2003.

notwithstanding that the VCW program has now been underway for more than seven years; and

- has at no stage, since first engaging the services of the VCG in 1997 in relation to the VCW program, tested the market to establish the relative value for money of the VCG's various proposals.

39. Advice Centrelink has provided to the ANAO indicates that the four contracts awarded by Centrelink to the VCG, stemming from an original restricted tender in 1997 for a limited service, have now resulted in total payments by Centrelink to the VCG of some \$4.4 million, as at the end of August 2004.

40. The VCG was paid \$70 000 under the July 1997 contract awarded to the company following the select tender process for a learning session for the Guiding Coalition. Around \$4.33 million in total has been paid to the VCG under the September 1997, April 2001 and October 2003 contracts. ANAO notes that the other tenderers in the original 1997 process, or indeed any other potential competitors in the market, have not had the opportunity to compete for these three, far more valuable, Australian Government contracts.

Overall audit conclusion

41. Centrelink commenced its Value Creation program shortly after the agency was established in 1997. Centrelink set up the program with a number of objectives in mind, the major reason being to facilitate cultural change within the organisation to improve the customer focus. However, the program also generates a range of data that Centrelink advised the ANAO was an important component of its customer feedback systems.

42. The ANAO concluded that, while the Value Creation program provides a mechanism for Centrelink to gather, measure, report and respond to certain customer feedback, there were opportunities to improve the effectiveness, efficiency and economy of this system. Such improvements would make the information collected from the Value Creation program more robust, and allow Centrelink to use the data more effectively to enhance service delivery.

Recommendations

43. The ANAO made seven recommendations to improve Centrelink's Value Creation program and its procurement processes.

Agency response

44. The CEO of Centrelink advised the ANAO on 7 February 2005 that he welcomed the report and agreed with all the recommendations. No additional comments were provided for attachment to the report.

Recommendations

**Recommendation No.1
Para 2.34** The ANAO recommends that Centrelink undertake a study to determine the impact of the presence of Centrelink staff during the conduct of a VCW on the willingness of customers to provide open feedback.

Centrelink Response: Agree.

**Recommendation No.2
Para 2.56** The ANAO recommends that Centrelink put in place systems for monitoring the selection of customers for a VCW and the selection process used, in order to better understand how representative the selected customers are of Centrelink's customer base.

Centrelink Response: Agree.

**Recommendation No.3
Para 2.61** The ANAO recommends that Centrelink put in place systems for monitoring the participation of staff in VCWs, to ensure coverage of staff and to facilitate the assessment of the extent of cultural change within the organisation.

Centrelink Response: Agree.

**Recommendation No.4
Para 2.69** The ANAO recommends that Centrelink put in place systems for monitoring the implementation of outcomes from a VCW.

Centrelink Response: Agree.

Recommendation No.5 The ANAO recommends that Centrelink put in place systems for monitoring:

Para 2.79

- (a) the location of VCWs to facilitate the achievement of national coverage; and
- (b) better practice in the conduct of VCWs and any alternative processes used by Centrelink Area offices.

Centrelink Response: Agree.

- Recommendation No.6
Para 2.122**
- The ANAO recommends that Centrelink:
- (a) put in place systems to effectively monitor the costs of the VCW program; and
 - (b) inform customers that the payment they receive for attending a VCW is income for taxation purposes.

Centrelink Response: Agree.

- Recommendation No.7
Para 3.97**
- The ANAO recommends that Centrelink takes the necessary actions to put in place systems to ensure that, in future procurements, it complies fully with the requirements of the Commonwealth's procurement policies and applicable legislation.

Centrelink Response: Agree.

Audit Findings and Conclusions

1. Introduction

This chapter outlines the background to the audit, including its role in the series of ANAO performance audits of Centrelink's customer feedback systems; describes the audit approach; and sets out the report structure.

Background

1.1 In 2003–04, Centrelink delivered services to 6.5 million customers, or approximately one-third of the Australian population. Customers include retired people, families, sole parents, people looking for work, people with disabilities, carers, Indigenous Australians¹⁹ and people from diverse cultural and linguistic backgrounds (DCALB).²⁰ A number of these customers are the most vulnerable²¹ in our society, and are those who have a heavy dependence on Centrelink.

1.2 Centrelink has recognised the importance of regularly seeking feedback²² from its large customer base on the quality of the services provided by the agency's extensive customer service network. To this end, Centrelink has a number of processes in place from which to obtain customer feedback. Some of these are Centrelink initiated, such as customer surveys; others are customer initiated, such as complaints and use of the review and appeals system. The Value Creation program is another important Centrelink initiated mechanism for obtaining customer feedback.

1.3 Centrelink²³ commenced its Value Creation program shortly after the agency was established on 1 July 1997. Centrelink states that the main objectives of this program are to assist the agency to:

- understand customers' most important needs overall;
- understand the most important areas for Centrelink to focus on for service improvement;

¹⁹ 'Indigenous Australian' in this report means Aboriginal and Torres Strait Islander peoples.

²⁰ DCALB is a term used by Centrelink to describe people of diverse cultural and linguistic background, other than Indigenous Australians.

²¹ Vulnerable customers may include those customers who: are homeless; have a drug or alcohol dependency; have low levels of literacy or numeracy; have a mental health condition; are Indigenous; and/or come from a diverse cultural and linguistic background.

²² Feedback is information received by Centrelink from customers and the community on Centrelink programs and service delivery. Feedback is received by Centrelink through a variety of ways including the complaints system, surveys, Value Creation Workshops, and the review and appeals system.

²³ Centrelink was established under the *Commonwealth Services Delivery Agency Act 1997* which came into effect on 1 July 1997. 'Centrelink' is the operating name of the Commonwealth Services Delivery Agency. This name was prescribed by a Regulation that came into effect on 1 July 1997.

- provide a guide for implementing change at policy, strategic and tactical (day-to-day behavioural) levels;
- provide inputs for Business Improvement Planning throughout Centrelink;
- connect Centrelink employees to customers' needs to support the customer-driven change process.²⁴

1.4 In September 1997, Centrelink, entered into a contractual agreement²⁵ with the Value Creation Group Pty Ltd (VCG)²⁶ for the provision of consultancy services (including licences for software and other intellectual property) and equipment to assist Centrelink to implement the company's Value Creation process throughout the agency.

1.5 The VCG markets a range of what it terms proprietary methodologies, including Value Creation Workshops (VCWs), under the trade mark Value Focusing™. Under the September 1997 contract, the VCG agreed to assist Centrelink to develop the capability to deliver, under licence, the company's Value Creation process techniques, including VCWs.

1.6 VCWs are structured and facilitated focus groups that involve both the 'customers'²⁷ of the services delivered by Centrelink and the 'providers'²⁸ of these services. The workshops are intended to allow customers to provide direct feedback to Centrelink and its staff regarding the services that they receive.

1.7 The conduct of VCWs across the Centrelink network is the key means by which the Value Creation program seeks to achieve its stated objectives. Centrelink, commenting in relation to the benefits provided by VCWs, has stated:

the local information that we obtain from the surveys and workshops is proving to be one of the most powerful tools for our customer service centres.²⁹

²⁴ Centrelink, *Value Creation in Centrelink, An Introduction*, 2003, p. 3.

²⁵ Centrelink has entered into further contracts with the VCG, in relation to the ongoing Value Creation program, in April 2001 and October 2003. See Chapter 3 for more information on the procurement process related to the Value Creation program.

²⁶ The VCG is an Australian consulting practice based in Eltham, Victoria that provides a number of services, outlined in its Internet homepage <<http://www.valuecreation.com.au/services/default.asp>>.

²⁷ Customers can include; recipients of social security entitlements, community group representatives and business partners.

²⁸ Providers can include Customer Service Officers (CSOs), Centrelink Managers, and Specialist Officers.

²⁹ Sue Vardon, (former CEO of Centrelink), *'Best Practice in Federal Government Service Delivery', Second International Conference on Caring*, Brisbane (30 March 2000), p.2 cited in <<http://www.valuecreation.com.au/info/vardon.asp>>.

1.8 Centrelink's view is that the use of VCWs provides it with a mechanism for 'leveraging cultural change to develop a customer-centric organisation'³⁰, and that it 'combines market research with cultural change in an experiential learning setting, ensuring a greater degree of learning stick'.³¹

1.9 Centrelink advised, in response to the ANAO's August 2004 issues paper, that:

The VCW program is a key tool for achieving Centrelink's strategic goals:

- Corporate Goal #2: Business and Community
'To work closely with the business and community sectors to achieve positive outcomes for Australians.'
- Corporate Goal #3: Customer
'To provide access to high quality services recognising the diverse needs, preferences and expectations of our customers, consistent with Government policy.'
- Corporate Goal #4: Developing Our People
'To meet the challenges of current and future business by supporting our people with knowledge, skills, tools and opportunities.'

1.10 The National Value Creation Team (NVCT), located in Melbourne, administers Centrelink's Value Creation program. The NVCT is responsible for the:

- management of Value Creation nationally;
- selection, training and accreditation of facilitators and technicians;
- provision of supervision, development and support to Area Based teams;
- provision of Value Creation Services to Centrelink's national teams;
- provision of Value Creation Services to Centrelink's client departments; and
- management of the relationship between Centrelink and the Value Creation Group Pty Ltd.³²

1.11 Area Value Creation teams are currently located in 10 out of the 15 Area Support Offices (ASO). Each of the Area Value Creation teams is

³⁰ Centrelink, *Regulation 10 Approval for Spending Proposal Summary Paper*, submission to the Minister for Finance and Administration, 22 July 2003, p. 1.

³¹ *ibid.*

³² Centrelink, *Value Creation in Centrelink, An Introduction*, op. cit., p. 8.

responsible for driving Value Creation activities within its Area. Centrelink advised ANAO in September 2004 that:

The Area network of facilitators and technicians have the responsibility for delivering primary, community and participation workshops³³ locally for their Area, and on occasion for sites in other Areas who (sic) do not have their own VCW teams. In addition, these staff provide their Areas with a range of associated planning and performance improvement services, with assistance from the NVCT.

Audit approach

1.12 Until the machinery of government changes following the October 2004 Federal Election,³⁴ Centrelink's delivery of services on behalf of the Department of Family and Community Services (FaCS) constituted the overwhelming bulk of Centrelink's activities.³⁵ As indicated in the foreword to this audit report, given the importance of customer feedback to Centrelink's business, the ANAO considered it timely to conduct a series of performance audits relating to Centrelink's customer feedback systems, particularly in relation to its delivery of the services then provided on behalf of FaCS.

1.13 The overarching objective of the series of ANAO performance audits of Centrelink's customer feedback systems was to assess whether Centrelink has effective processes and systems for gathering, measuring, reporting and responding effectively to customer feedback, including in relation to customer satisfaction with Centrelink services and processes. More detail about this is included in the foreword to this report and in the overarching report, ANAO Audit Report No.31 2004–05, *Centrelink's Customer Feedback Systems—Summary Report*.

³³ See Chapter 2 for more information on the different types of VCWs conducted by Centrelink as part of its Value Creation program.

³⁴ On 22 October 2004, the Prime Minister announced machinery of government changes affecting, among other things, the administration of policy relating to income support payments and related programs. Previously, Centrelink was located in the FaCS Portfolio and, while it had agreements in place with other agencies such as Department of Employment and Workplace Relations (DEWR) and the Department of Education Science and Training (DEST) for the delivery of some services, the overwhelming bulk of Centrelink's activities related to its delivery of services on behalf of FaCS. As a result of the changes announced by the Prime Minister, Centrelink is now part of the newly established Department of Human Services Portfolio. In addition, DEWR now has policy responsibility for the delivery of working age income support payments (including Newstart, Parenting Payment (partnered and single), Youth Allowance for non-students, Disability Support Pension and Mature Age Allowance) and DEST has policy responsibility for income support payments for students (including Youth Allowance for students which had previously been administered by FaCS).

³⁵ Accordingly, until October 2004, FaCS was Centrelink's major source of revenue, providing approximately 91 per cent of Centrelink's revenue in 2003–04. *Centrelink Annual Report 2003–04*, p. 196.

1.14 The ANAO consulted with Centrelink to establish the agency's key customer feedback systems to be included in the the series of audits to be undertaken to inform the ANAO's conclusions against this overarching objective. The Value Creation program was identified by Centrelink as playing a key role in providing direct customer feedback, in addition to the other purposes for which Centrelink uses the program (such as to engender cultural change in the agency). In light of this, and the significant investment that Centrelink has made in the Value Creation program over the last seven years, the Value Creation program was selected for audit as part of this series.

1.15 The specific objectives of the audit of Centrelink's Value Creation program were to examine:

- the effectiveness of the Value Creation program as a mechanism for Centrelink to gather, measure, report and respond to customer feedback;
- the effectiveness of the Value Creation program in achieving the additional outcomes expected of the program by Centrelink; and
- the extent to which Centrelink uses the data obtained from the Value Creation program to identify opportunities for improving service delivery, and to inform its strategic planning and procedural development processes.

1.16 Because the Value Creation program in Centrelink has involved the procurement of services and products from the Value Creation Group Pty Ltd to a value in excess of \$4.4 million³⁶ over a seven year period, a further objective of the audit was to determine the efficiency, effectiveness and economy of the relevant Centrelink procurement processes and the extent to which these processes have complied with relevant legislation and government policy guidelines.

1.17 Fieldwork for this audit was conducted primarily between October 2003 and July 2004. The ANAO analysed key Centrelink documentation, files and information on Centrelink's intranet. The ANAO conducted interviews with Centrelink managers, key National Support Office staff and staff in Area Support Offices and Customer Service Centres in six of the 15 Areas. The Areas visited are located in New South Wales, Victoria and the Australian Capital Territory. The ANAO also held discussions with key community and government stakeholders.

³⁶ Total calculated by the ANAO on the basis of information provided by Centrelink.

1.18 The ANAO engaged Professor Ian McAllister and Dr Rachel Gibson from the Australian National University's (ANU) Research School of Social Sciences to assist in the analysis of Centrelink's Value Creation program.

1.19 The ANAO also engaged the services of Mallesons Stephen Jaques to provide legal advice in relation to the certain issues associated with Centrelink's procurement of services and products from the VCG.

1.20 The Auditor-General invited the VCG to provide comments on the proposed report due to their involvement in the Value Creation Program and the company's comments were considered in finalisation of the audit report.

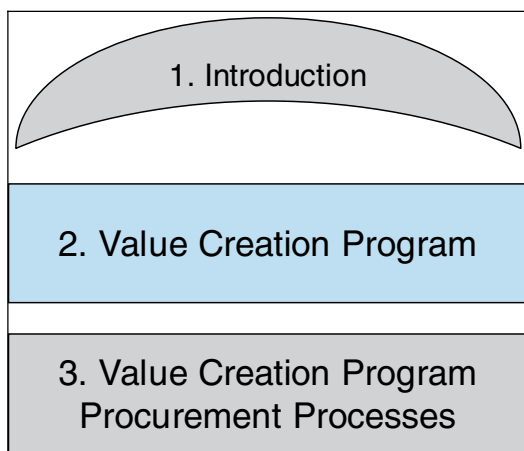
1.21 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of some \$195 000.

Structure of the report

1.22 This report contains three chapters, as outlined in Figure 1.1 below.

Figure 1.1

Structure of the report



2. Value Creation Program

This chapter discusses VCWs; the impact of the involvement of Centrelink staff in workshops; the selection of customers and staff to participate; monitoring and reporting of the Value Creation program; the costs of the program; and evaluation of the program.

Value Creation Workshops (VCWs)

2.1 Centrelink's Value Creation program involves the conduct of a range of different sorts of VCWs across the Centrelink network.

2.2 The basic type of VCW conducted by Centrelink is the Primary or 'Customer Service' Workshop. This type of VCW was the original workshop run by Centrelink starting in 1997 and is still a significant part of the suite of VCW products available and used in the agency.

2.3 A Primary Workshop involves the staff of an individual Customer Service Centre (CSC), or Call Centre (CC), directly listening to feedback provided by customers who use the services provided by that particular CSC or CC. These Primary Workshops can collect general feedback or can be modified to focus specifically on customers receiving a particular form of social security entitlement, such as Aged Pension, Newstart, or Parenting Payment.

2.4 Centrelink advised in response to the ANAO's August 2004 issues paper that:

From the creation of Centrelink in [July] 1997 until the end of that year, Area-based Value Creation teams conducted around 260 workshops across Australia to assist with the initial cultural push at Centrelink's launch. Over the last four years, the level of primary VCW activity in the network has been declining. This was expected given the magnitude of the initial push. Over this time, however, this decline has been offset by an increase in the use of other types of VCW workshops.

2.5 Primary Workshops are still the most common type of workshop, with 32 per cent of all VCWs held in 2003 being Primary Workshops. The other workshops were a mix of other workshops held with particular groups of customers or other stakeholders, or to explore particular issues. This is discussed further in the next section.

Other types of VCWs

2.6 Centrelink's Value Creation program now involves a range of different types of VCWs undertaken across the network. A description of some other types of VCWs conducted by Centrelink is contained in Figure 2.1.

Figure 2.1

Types of VCWs

Community Partnership Workshops

Community Partnership Workshops provide CSC staff with the opportunity to listen directly to feedback that is provided by community group representatives on any issues, concerns or ideas that they have for service improvement. The community representatives, unlike the customers who participate in other external VCWs, are invited to stay for the remainder of the day to assist the CSC staff in their planning efforts.

Indigenous Workshops

Indigenous workshops are conducted by Indigenous facilitators who have received specialised training in facilitating these workshops in a style that is more consistent with Indigenous culture. Indigenous workshops, unlike other external VCWs, place increased emphasis on small group discussions to examine important issues in service delivery. The local CSC staff that participate are provided with the opportunity to directly listen to the feedback provided by the Indigenous customers.

Internal Service Leadership Workshops

This type of workshop is designed to provide an opportunity for Leadership Teams within Centrelink to better understand the needs of their internal customers, and to use such feedback to maximise customer and business outcomes. The Leadership Team participates in a half-day briefing and preparation session, prior to spending a day with their internal customers.

Business and Team Improvement Meeting Workshop

The Business and Team Improvement Meeting Workshop is held over a half-day period and is designed to assist staff to understand and connect with Centrelink's business; and identify opportunities for improvement.

Australians Working Together Community Partnership Workshop

This type of workshop is designed to complement the Australians Working Together (AWT) initiative. The participants of the workshop include Centrelink staff from ASO and service levels, and representatives of community sector organisations.

AWT Participation Workshop

This type of workshop involves customers from AWT target groups, and is designed to explore the customer's experience of participation interventions within the Centrelink context.

Inner City Servicing Workshop

The Inner City Servicing Workshop has been designed to obtain the opinion of community group representatives as to inner city customers' experience of Centrelink service. The workshop seeks to inform and drive improvements to the quality of the service experience. As Centrelink contend: 'this workshop recognises that different challenges and opportunities are faced by Centrelink service centres located in inner city areas, and is designed to help Centrelink service providers'.

Source: National Value Creation Team, *Value Creation in Centrelink: An Introduction*, January 2003, pp. 5–7.

2.7 Centrelink advised the ANAO in September 2004 that, in addition to those mentioned in Figure 2.1, examples of newer types of workshops include:

- workshops to investigate issues related to vulnerable customers;
- customised forums (commissioned by Centrelink's client agencies) which have helped contribute to the development of policy;
- workshops that explore particular topics of interest or concern across Centrelink at a particular point in time (either to gather customer feedback on particular issues affecting them or to gather staff feedback on issues such as the evaluation of the Centrelink Education Network);
- workshops that focus on internal customer service and the internal service delivery relationships between Centrelink staff; and
- policy implementation workshops.

Primary Workshops

2.8 The responsibility for deciding whether there is a need to conduct a Primary Workshop generally rests with each ASO or CSC. However, Centrelink has mandated that each CSC hold a VCW where its overall level of customer satisfaction falls below 75 per cent. The overall level of customer satisfaction is used as a performance measure for individual CSCs, and is obtained from the top line satisfaction numbers from Centrelink's CSC Satisfaction Surveys.³⁷

Process for VCWs involving customers

2.9 VCWs are usually run over one full day and are divided into a morning and afternoon session. For VCWs that include customer participation, such as the primary VCWs, customers are present only for the morning session, while the Centrelink staff remain for the whole day. The characteristics of the customers and Centrelink staff who participate are dependent upon on the type of VCW that is being held.³⁸

³⁷ Centrelink commissions the conduct of a number of surveys of its customers, to obtain direct feedback from them about their experience with Centrelink. The major satisfaction surveys are the CSC Survey, the Call Centre Survey, and the Centrelink National Survey. The major satisfaction surveys are all telephone surveys. The CSC and Call Centre surveys are rolling annual surveys and the National Survey is conducted annually. The CSC and Call Centre surveys are conducted every week across 12 months of the year (excluding Christmas/New Year). Further information about Centrelink's satisfaction surveys, including how the top line satisfaction numbers are derived can be found in Audit Report No.33 2004–05, *Centrelink's Customer Satisfaction Surveys*, which is a companion report to this audit report.

³⁸ Centrelink, *Value Creation Team Homepage, Centranet*.

2.10 During the morning session, VCWs utilise Option Finder™ software and electronic keypad technology.³⁹ The rationale for using this technology and software is to allow participants to respond anonymously to a series of questions posed to them by the workshop facilitator.

2.11 The purpose of these questions is to elicit open responses from customers regarding the elements of service delivery that they value the most, as well as the elements that they find the most irritating, when dealing with Centrelink.⁴⁰ Centrelink advised the ANAO that ‘these questions are intended to gather individual’s ratings of their service experience. The group’s response is then displayed to prompt a facilitated discussion about their experiences’.⁴¹

2.12 To maximise the openness with which customers will respond to these questions, it is important that customers feel that their anonymity is adequately protected during the conduct of the session. However, in the VCW the ANAO observed during fieldwork, the behaviour of the particular facilitator in constantly urging one particular customer to hurry up and enter her responses, albeit the person was only identified by their keypad number, would have compromised, at least to some extent, that customer’s perception of anonymity.

2.13 In the morning session, the customers are seated in a large semi-circle at the front of the room directly facing the facilitator, whilst the Centrelink staff are seated in a semi-circle pattern directly behind them. All the discussions that are held during the morning session are conducted entirely between the customers and the facilitator.

2.14 Centrelink advised, in response to the ANAO’s August issues papers, that Centrelink staff are prepared in advance for their attendance at the workshop. In the morning, just prior to the arrival of the customers, a discussion is held about how the VCW process will run. This includes advising them why they should remain silent during the session with customers and the possible impact on customers if they do not. Staff are encouraged to mix with customers before the workshop and during the morning tea and lunch breaks. Centrelink stated that this is done, in part, to help customers feel at ease and to encourage them to be open in their comments.

³⁹ <<http://www.optionfinder.com/index.html>>.

⁴⁰ Centrelink, *Value Creation in Centrelink, An Introduction*, op. cit., p. 9.

⁴¹ An activity, using post-it notes, is separately conducted during the VCW to provide customers with an opportunity to anonymously provide, in written form, advice about what they find most irritating. There is also another activity conducted that allows the attendees to develop a set of values for what they consider are the most important elements of an ideal service.

2.15 The direct participation of the Centrelink staff during the morning session is largely limited to the use of the Option Finder technology to attempt to predict the customers' responses to the questions that they are asked.⁴² At the conclusion of the morning session, the customers share a lunch with the Centrelink staff and then depart for the day.

2.16 During the afternoon session, the Centrelink staff reconvene and review the information that was obtained from customers during the morning session. The facilitator then assists the Centrelink staff to identify potential improvements to service delivery, based on the feedback that they received from the customers who participated, their own personal observations made during the VCW and what they learnt from the workshop.

2.17 In September 2004, Centrelink advised the ANAO that:

[The facilitators] help staff identify major themes arising from the feedback, to select those topics that the office may wish to explore further and those where action can be taken (following further investigation and discussion with other staff).

VCW report

2.18 At the conclusion of the VCW, the information obtained during the day from both customers and staff is used to prepare a detailed report for the relevant CSC on the content, process and outcomes from the workshop. This type of report contains several categories of management information that are designed to be used by a CSC or other areas within Centrelink in 'current and future planning efforts to improve the services that Centrelink offers its customers'.

2.19 The management information contained in individual VCW reports includes:

- identification of customers' concerns/irritants and their relative importance
- identification of customers' positive experiences
- evaluation of Centrelink's overall performance
- identification and ranking of the major elements of a "best in the world" service
- evaluation of Centrelink's performance on specific aspects of service
- identification of Service Provider insights, operational themes, service improvement opportunities and next steps⁴³

⁴² Centrelink advised, in response to the ANAO's August 2004 issues paper, that staff are expected to participate in the morning's activities other than discussion—such as recording irritants on post-it-notes. Staff are also expected to take notes and record their own observations during the workshop for use in the afternoon session.

⁴³ Centrelink, *Fitzroy Centrelink Service Centre, Value Creation Workshop*, 14 October 2003, p. 3.

Impact of staff involvement

2.20 During VCWs involving customers, equal numbers of Centrelink staff and customers are in the room. The presence of staff members in the room, although they do not contribute to the discussions held between customers and the facilitator, is considered by Centrelink to be an important feature of the VCW process. This is predicated on the view that staff, hearing about the impact of their actions directly from those affected by their actions, will be more likely to change their behaviour as a result than is the case with traditional learning.⁴⁴

2.21 Traditional focus group methodology usually involves one or two facilitators being present in the venue with customers. The facilitators are generally responsible for structuring the discussions that are held with customers and for collecting this data for later analysis.

2.22 ANAO Audit Report No.33 2004–05, *Centrelink's Customer Satisfaction Surveys*⁴⁵, discussed in detail the issue of respondents potentially not answering questions about Centrelink's quality of service openly because they want to protect their interests or because they are fearful that there will be unintended consequences in providing a frank and open response.⁴⁶ This was considered to occur because of the customers' dependence on Centrelink for their income, and so had a heightened fear of retribution.

2.23 The issue of dependency relationships could also affect the conduct of VCWs, and may potentially be amplified given that Centrelink staff members are present in the same room, possibly even staff members with whom a participating customer has personally dealt. Even unknown staff members may have an impact on customer behaviour, because these staff represent Centrelink. However, having the staff members with whom the customers may regularly interact to receive their payments, sitting directly behind them, may be even more intimidating.

2.24 If the presence of Centrelink staff in the VCW leads to customers not answering openly regarding their experiences with Centrelink, then this may also lessen the potential for staff to change their behaviour by hearing of those experiences. The ANAO notes Centrelink's advice that:

it is possible that it is the staff who are the most uncomfortable in the workshop situation with customers present. This situation is potentially very

⁴⁴ Centrelink, *Regulation 10 Approval for Spending Proposal Summary Paper*, op. cit., p. 1.

⁴⁵ The issue of customer fear of retribution is also raised in ANAO Audit Report No.34 2004–05 *Centrelink's Complaints Handling System* and ANAO Audit Report No.35 2004–05 *Centrelink's Review and Appeals System*.

⁴⁶ See ANAO Audit Report No.33 2004–05, *Centrelink's Customer Satisfaction Surveys*, Chapter 5.

confronting for some staff (which in turn makes it an effective tool for assisting with attitudinal and subsequent behavioural change.⁴⁷

2.25 During audit fieldwork, the ANAO conducted a number of interviews with external stakeholders regarding the participation of their clients in the VCW process. These stakeholders held the view that, should any of their clients be asked to participate in a VCW, while some would not censor their responses, many would be apprehensive about the presence of Centrelink staff. Stakeholders indicated that this apprehension could inhibit the discussions these clients would hold with the facilitator, notwithstanding the use of the Option Finder technology for part of the VCW process.

2.26 The ANAO observed a Primary Workshop held by the Fitzroy CSC. In this workshop it was apparent that some of the customers involved were less willing to engage in the process than others. While some customers were very vocal in expressing their issues and tended to dominate the process, others had to be encouraged to comment. While these customers would offer limited information, they did not appear comfortable in doing so.

2.27 The ANAO was unable to determine whether or not the presence of Centrelink staff members in the room in any way inhibits the discussion customers have with the facilitator regarding their experiences with Centrelink. The ambience, conduct and general dynamic of VCWs may, or may not, dispel such inhibitions.

2.28 The ANAO notes that one way open to Centrelink to test the impact of the presence of staff in the room would be to conduct a group of VCWs around the same set of structured topics with broadly similar samples of customers; with one group that includes Centrelink officers and one group that excludes them. A comparison of the responses of each group in range and depth should reveal whether or not the participation of Centrelink staff in a VCW biases the results. However, the results of any such test would need to take account of the customer selection process used. The section below on the selection of customers for participation in VCWs, examines this issue in more detail.

2.29 If it were found that the presence of staff did impact adversely on customers' behaviours during the VCW, any information generated by VCWs would need to be used in the context of the possibility that customers are not open about their experiences.

2.30 Centrelink argues that the use of VCWs provides the agency with a mechanism for 'leveraging cultural change to develop a customer-centric organisation', and that it 'combines market research with cultural change in an

⁴⁷ Centrelink response of 1 September 2004 to ANAO's August 2004 Value Creation Workshops (Part A) issues paper, p. 13.

experiential learning setting, ensuring a greater degree of learning stick'. A key aspect of the VCW process used by Centrelink involves equal numbers of Centrelink staff and customers being in the room during the first half of the workshop. The second half of the workshop involves only the participating Centrelink staff.

2.31 However, the issue of a dependency relationship between customers and Centrelink could lead to customers not answering openly during the conduct of a VCW, due to the fear of retribution. This fear of retribution may potentially be amplified given that Centrelink staff members are present in the same room, and that some of these staff may be those with whom the customers may regularly interact to receive their payments.

2.32 Any lack of openness by customers in relation to their experiences in dealing with Centrelink may also lessen the potential for staff to change their behaviour from hearing of those experiences. As well, the data gathered through the conduct of VCWs would need to be used with some caution.

2.33 The ANAO considers that there would be benefit in Centrelink conducting testing to establish whether the presence of staff in VCWs adversely impacts on customers' behaviours. If Centrelink's testing indicates that this is the case, any information generated by VCWs would need to be used in the context of the possibility that customers are not open about their experiences. Centrelink may also need to identify ways to minimise this impact.

Recommendation No.1

2.34 The ANAO recommends that Centrelink undertake a study to determine the impact of the presence of Centrelink staff during the conduct of a VCW on the willingness of customers to provide open feedback.

Centrelink Response: Agree.

Selection of customers

2.35 The NVCT has issued a guidance document entitled *Planning a Value Creation Workshop*⁴⁸ (the guidance document) on the recruitment of customers for a VCW, including a Primary Workshop. This document is designed to be used by CSCs and other Centrelink teams in the planning and organisation of a VCW.⁴⁹

⁴⁸ Centrelink, *Planning a Value Creation Workshop*, March, 2003.

⁴⁹ Centrelink, *Planning a Value Creation Workshop*, op. cit., p. 10.

2.36 This guidance document prescribes that a CSC needs to identify, at random, 40 customers who may be interested in participating in a VCW. Of these customers, only 20 should be randomly selected to attend the VCW. The document prescribes that those customers, who are not selected, should be thanked for expressing interest.⁵⁰ The document outlines that the purpose of such a selection is to achieve a representative sample of customer participants that best matches the customer profile of the CSC involved.⁵¹

2.37 There are no mandated selection procedures for the recruitment of customers to a VCW. The guidance documents outlines the following options that could be used by a CSC, or Centrelink team, in the recruitment of customers to VCW stating:

- an option is to ask every third person as you contact them as part of the normal post grant telephone contact to see how things went for them; and
- another option is to approach every third customer for each major category so that recruitment is random and representative of customer base.⁵²

2.38 The quota strategies, which are outlined in the options above, are normally effective when they are conducted on an objective basis. However, the ANU has advised the ANAO that there is considerable evidence in public opinion surveys to suggest that, where quota sampling is utilised to select respondents, interviewers often select those respondents whom they believe will be the easiest to handle and the most compliant in an interview context. As such, this type of selection may result in the sample becoming biased, and the intelligence obtained by the process being skewed, as well as being potentially unreliable.

2.39 During the course of the audit, the ANAO interviewed Centrelink staff members who had been involved in the recruitment of customers for a VCW. These staff indicated that they were instructed to select customers that were in a CSC public contact area whom they felt would be most likely to participate in the VCW process, and to express their views in the workshop. The selection of customers in this manner may not be entirely reflective of the customer base of a CSC, and may lead to skewed research outcomes.

2.40 The need to select those most likely to participate may be a reflection of the complexity and length of some of the questions, and the need to analyse information and to formulate ideas for improved service. Centrelink staff may

⁵⁰ *ibid.*

⁵¹ *ibid.*

⁵² *ibid.*

be selecting customers whom they see as being most able to undertake a high level of analysis, and to articulate opinions with confidence, in an environment where there may be more than 30 people in the room, including Centrelink staff.

2.41 Previous guidance⁵³ on the conduct of workshops provided the above options for selecting customers, but also included options which involved the random selection of customers, as follows:

- you can randomly select names from CAS Profiles over the last 6 months- this ensures that customers have been into your site recently; and
- another option is to create a SAS run and randomly select customers from it (especially useful when targeting specific groups eg. FAO, Youth).⁵⁴

2.42 This previous guidance noted that such a random selection of customers is considered the most objective method of selection in preventing sampling bias. In some cases, a CSC or CC that is organising a VCW may not find it feasible to use a random selection; and may have to employ one of the more subjective methods outlined in the guidance document. However, these options are no longer provided in the current guidance issued to Centrelink staff.

2.43 In cases where there is the use of a subjective method for the selection of customers, such as those outlined in the first two options, it is important for Centrelink to consider that there may be potential limitations in the intelligence that they receive. These potential limitations should be factored into any evaluation, or consolidation, of the intelligence provided by the customers who are selected on a subjective basis.

2.44 The guidance document prescribes that a CSC needs to identify, at random, 40 customers who may be interested in participating in a VCW. However, there are no mandated selection procedures for the recruitment of customers to a VCW, although the guidance document outlines options that could be used using a quota approach. Centrelink staff, interviewed by the ANAO, indicated that they selected customers from the CSC public contact area whom they felt would be most likely to participate.

2.45 A non-random selection process may lead to the sample becoming biased, and the intelligence obtained by the process being skewed, as well as being potentially unreliable. Therefore, the impact of the selection process needs to be factored into any analysis of data from the VCW.

⁵³ Centrelink, *Preparing for Your Value Creation Workshop (Customer Service Champion VCW Kit)*.

⁵⁴ *ibid.*, p. 10

Selection of staff

2.46 The *Planning a Value Creation Workshop* document also contains instructions on the recruitment of Centrelink staff to participate in a VCW. The document does not specify a mandatory method for such selection. However, the document does state that the organiser should ‘canvass staff from each section/team for attendance’.⁵⁵

2.47 In relation to the characteristics of the staff who should be approached to attend, the guidance document states that ‘participating staff do not require any special attributes other than they have energy and are prepared to contribute’.⁵⁶

2.48 During the course of fieldwork, the ANAO interviewed a number of Centrelink Office Managers who were involved in the recruitment of staff for a VCW. The managers indicated that they would select staff to participate whom they felt would most benefit from the ‘cultural change’ aspect of the VCWs.

2.49 There is no explicit description in the guidance document that assists VCW organisers to identify particular characteristics or attributes of staff most likely to benefit from participation in a VCW. The decision on which staff members should attend a VCW is left entirely to the CSC Office Manager or VCW organiser. Centrelink advised, in response to the ANAO’s August 2004 issues paper, that:

This statement is true, but subject to the guidance provided in the ‘Planning a Value Creation Workshop’ document and the guidance provided by the VCW facilitator. The decision on which individual staff members should attend is appropriately the responsibility of the local senior staff at they are aware of the cultural issues that the workshops are designed to impact.

Monitoring of the Value Creation program

2.50 Monitoring of the Value Creation program is important to ensure that any problems with the program, and/or any coverage issues, are quickly identified and corrective action is undertaken. Monitoring also provides assurance that any information obtained from the process is robust and has the potential to provide information about the effectiveness of the program in delivering the outcomes sought from it.

Monitoring of the selection of customers

2.51 As discussed above in the section about the selection of customers, there are no mandated selection procedures for the recruitment of customers.

⁵⁵ Centrelink, *Planning a Value Creation Workshop*, op. cit., p. 17.

⁵⁶ *ibid.*

Centrelink staff advised the ANAO that non-random methods of selection are used, including selecting customers whom staff believe would be most likely to participate. This could lead to bias in the sample of customers and hence in the actual information generated from the VCW.

2.52 However, the process that is used by a CSC, or CC, in the selection of customers to participate in a VCW is not reported in either the individual or consolidated VCW reports. Centrelink advised, in response to the ANAO's August 2004 issues paper, that:

Workshop facilitators monitor the selection of customers and the selection techniques used. They talk to the CSC Manager initially about the process prior to selection and check the outcomes.

Facilitators regularly report to the NVCT about all issues associated with workshops, including the mix of customers.

It would, however, be useful to formalise this process and ask facilitators to undertake some periodic quality assurance checks and report to the NVCT every six months.

2.53 Centrelink provided information to the ANAO on 1 September 2004 on the age and payment type of customers who have participated in a VCW. These data show that there is a skew towards those customers who visit a CSC. This is to be expected given the nature of the VCWs as a tool for CSCs. However, this information is unable to identify whether those customers are the most able, or whether vulnerable customers are under represented.

2.54 The ANAO considers that it is important that staff within Centrelink using data obtained from VCWs, particularly to inform the design of specific services or improve service delivery, are informed of the methods used to select the customers involved. The reason is to be able to determine how representative VCW respondents are of the Centrelink customer base and hence any possible limitations of this data. Accordingly, the ANAO encourages Centrelink to include this information in the individual, and consolidated, VCW report.

2.55 The process used by a CSC, or CC, in the selection of customers to participate in a VCW is not reported or monitored. The NVCT plays no role in monitoring the selection of customers and receives no information on the selection technique that is used. Without knowing which selection method has been used by VCW organisers, Centrelink cannot determine how representative VCW respondents are of the Centrelink customer base.

Recommendation No.2

2.56 The ANAO recommends that Centrelink put in place systems for monitoring the selection of customers for a VCW and the selection process used, in order to better understand how representative the selected customers are of Centrelink's customer base.

Centrelink Response: Agree.

Monitoring of staff participation

2.57 Centrelink does not record which staff members have been selected to participate in a VCW. The lack of attendance information prevents Centrelink from precisely establishing the number of staff who have participated in this process, and whether staff have attended multiple VCWs. Furthermore, Centrelink is unable to determine whether various categories of staff, including Indigenous Australians and those from a diverse cultural and linguistic background, enjoy an equal chance of participating in a VCW.

2.58 Centrelink advised in response to the ANAO's August 2004 issues papers that:

This information is not collected nationally. Local workshop organisers/CSC Managers are fully aware of which staff have attended and how often.

This is a cultural change, not a research methodology, issue. It is entirely appropriate that managers decide which staff would benefit most. It is not an equal opportunity issue. Some staff may need to attend more than one workshop. Over the years, the number of staff who have attended a VCW is estimated at 27 000.

2.59 Despite Centrelink's advice that information is available at the local level, about which staff have attended VCWs and how often, the ANAO notes that Centrelink does not have available to it aggregated data which provides a national picture of staff participation in the VCW program.

2.60 The ANAO also notes that, in the absence of any requirement to record and report centrally which staff have participated in VCWs, there is a substantial risk that, over time, the local level corporate knowledge of CSC managers and VCW organisers, to which Centrelink refers above, will dissipate as normal staff movements occur. Accordingly, Centrelink is not in a position to determine in an accurate manner whether individual staff have benefited, over time, from their participation in a VCW or VCWs. Lack of information about this participation reduces Centrelink's capacity to determine objectively the overall effectiveness of the Value Creation program in achieving one of its key goals, namely that there has been an improvement in the customer service culture of staff members who have participated in a VCW.

Recommendation No.3

2.61 The ANAO recommends that Centrelink put in place systems for monitoring the participation of staff in VCWs, to ensure coverage of staff and to facilitate the assessment of the extent of cultural change within the organisation.

Centrelink Response: Agree.

Monitoring of implementation of VCW outcomes

2.62 After each VCW, a report is provided to the CSC containing information obtained from the VCW and detailing outcomes and findings of the VCW. One of the outcomes of a VCW is the identification of service improvement opportunities and next steps.

2.63 During fieldwork, the ANAO discussed with Centrelink Managers at the Area and CSC level, as to how the outcomes of a VCW were implemented and monitored. Some of these Managers said that activities arising from the VCW would be incorporated with their Business Improvement Plans (BIPs). Others said that they would be included in the personal performance assessment agreement. One was unable to answer how any outcomes would be implemented or monitored.

2.64 The ANAO examined the BIPs for 2003–04 for each of Centrelink’s Areas, and for the CSCs visited during fieldwork. None of these BIPs included reference to implementing the outcomes of a VCW.

2.65 Centrelink advised in response to the ANAO’s August 2004 issues paper that:

This is local planning issue. However, we have been concerned for some time that local managers and some workshop facilitators don’t devote the time, nor necessarily have the skills, to analyse all the available customer feedback data (including workshop outputs) and develop the appropriate service improvement initiatives to be included in BIPs.

We have embarked on a project with one Area (and are planning on another two) to trial and evaluate a process whereby the workshop facilitator works with CSC staff to examine all available customer feedback data and develop improvement initiatives.

Following evaluation, the widespread use of this approach will be discussed at the Performance Management Meeting (PMM). We are also currently planing training sessions to upgrade data analysis for facilitators.

2.66 There does not currently appear to be a systematic approach to implementing or monitoring the outcomes of a VCW. Therefore, nationally, there is limited assurance that the outcomes of VCWs are implemented and monitored.

2.67 In the fieldwork discussions, the ANAO also asked Managers how they assess the cultural change resulting from VCWs. Some answered that they look at other indicators, such as increases in quality and efficiency, increases in customer satisfaction results, or by personal observation. However, it was acknowledged that the effect of VCWs on these indicators could not be isolated.

2.68 The ANAO was not provided with strong evidence in its discussions with Centrelink Managers at the Area and CSC level that these Managers monitored the implementation of outcomes from a VCW, nor did they assess the effectiveness of any activities arising from the VCW.

Recommendation No.4

2.69 The ANAO recommends that Centrelink put in place systems for monitoring the implementation of outcomes from a VCW.

Centrelink Response: Agree.

Monitoring of the location of VCWs

2.70 The NVCT plays no role in determining where VCWs are held within the Centrelink network, with each ASO responsible for driving Value Creation activities within their respective areas. However, the NVCT does aggregate the data obtained from individual Primary Workshops, in order to identify customers' values and irritants across the network. This data is then reported by the NVCT to drive service improvement at a national level.

2.71 In order for such reporting to be accurate and reflective of customer's views, VCWs need to be scheduled across areas that are broadly representative of Centrelink's customer base. Coverage across Centrelink's network will ensure that the data that are aggregated by the NVCT are representative of the views of Centrelink customers as a whole.

2.72 The ANAO found that several ASOs have not held a regular program of Primary Workshops since 2000. In this period, Area South Metro, and Area Tasmania, each held only one primary VCW. Similarly, Area Central and North Queensland held only four VCWs, and Area North Australia held only six Primary Workshops, with each of these six occurring in 2000 and 2001. This contrasts starkly with the figures for other ASOs in the corresponding period, with Area Western Australia and Area West Victoria having held 41 and 34 Primary Workshops respectively.⁵⁷

⁵⁷ Analysis is based on data received from Centrelink on all types of VCWs held from February 2000 to May 2004.

2.73 In one ASO that the audit team visited, only one primary VCW had been held since 2000. Senior members of the management team indicated to the ANAO that the reason they had not completed a regular program of VCWs, was that they saw little value in the process, on the basis that it could take over three hours to elicit a meaningful response from customers who participated. Furthermore, they indicated that another factor discouraging them from undertaking VCWs was that the data they could obtain from this process would not correspond with the data obtained from the customer satisfaction surveys undertaken by Centrelink.

2.74 The NVCT plays no role in ensuring the adequate coverage of VCWs across the Centrelink network. Furthermore, the NVCT cannot mandate that particular ASOs undertake VCWs to address any gaps in their national coverage. The inconsistent coverage of VCWs across the network may impact on the robustness of the national aggregation of VCW data. Given that some ASOs do not undertake a regular program of VCWs, Centrelink is unable to systematically aggregate, analyse and report the values and irritants of the customers of these ASOs service, in the manner that it does for ASOs who have undertaken numerous VCWs. Thus the aggregated data is not truly national data.

2.75 There is a risk that the national aggregation of VCW data will not be reflective of the actual customer levels of each ASO, but rather will be disproportionately representative of the values and irritants of customers in those ASOs that have held more VCWs than their counterparts. This difference can be quite profound. In one instance, one ASO visited by the audit team had held 29 times more VCWs than a neighbouring ASO that was also visited by the audit team.

2.76 The ANAO held discussions with senior members of the management team in each of the six ASOs it visited during the audit. In these discussions, managers were asked to comment on the use of VCWs within their respective areas. All the senior managers interviewed, with the exception of one ASO, indicated that VCWs were the primary mechanism by which they sought to achieve customer driven cultural change and to obtain qualitative data to drive local service improvement practices. Senior managers in the one ASO that did not concur with this general consensus stated that they sought to bring about cultural change, and drive local service improvement practices, by utilising methods they had devised themselves rather than by undertaking VCWs.

2.77 Where an ASO primarily uses methods other than a VCW to attempt to produce customer driven cultural change and local service improvement practices, neither Centrelink's National Support Office nor the NVCT obtains any information on their composition or use. Consequently, Centrelink is unable to determine the economy, efficiency and effectiveness of these alternative methods, nor compare these factors with those for VCWs. In the

event that such alternative methods prove superior, Centrelink is unable to implement these nationally, nor consider modifications to its existing Value Creation program.

2.78 The NVCT advised in response to the ANAO's August 2004 issues paper that:

There are no major alternative methods used in any Area. It is true, however, that small initiatives exist and we do not monitor or evaluate these. This is an issue that we will take up with Area Managers.

Recommendation No.5

2.79 The ANAO recommends that Centrelink put in place systems for monitoring:

- (a) the location of VCWs to facilitate the achievement of national coverage; and
- (b) better practice in the conduct of VCWs and any alternative processes used by Centrelink Area offices.

Centrelink Response: Agree.

Reporting of the Value Creation program

Individual Value Creation reports

2.80 An accredited VCW technician supports each facilitator during the course of a workshop. The technician is responsible for recording the discussions that are held between the facilitator and the participants, as well as operating the equipment that records and collates the data obtained from participants using the Option Finder technology. A report on the VCW outcomes and findings is then prepared.

2.81 This type of report contains several categories of management information that are designed to be used by a CSC or other areas within Centrelink in 'current and future planning efforts to improve the services that Centrelink offers its customers'.

2.82 The management information contained in individual VCW reports includes:

- identification of customers' concerns/irritants and their relative importance;
- identification of customers' positive experiences;
- evaluation of Centrelink's overall performance;

- identification and ranking of the major elements of a 'best in the world' service;
- evaluation of Centrelink's performance on specific aspects of service; and
- identification of Service Provider insights, operational themes, service improvement opportunities and next steps.⁵⁸

2.83 As discussed in the section on Monitoring of the Value Creation program, the ANAO was not provided with strong evidence in these discussions that Centrelink Area and CSC Managers monitored the implementation of outcomes from a VCW included in these reports, nor did they assess the effectiveness of any activities arising from the VCW.

Value Creation Consolidated reports

2.84 At the conclusion of every six-month period, ending on the 30 June and 31 December of each year, the NVCT collates all the intelligence and findings that have been gathered via Primary Workshops held in the Centrelink network. The NVCT then summarises the feedback that is provided by customers, through VCWs into a 'Value Creation Consolidated Report'.

2.85 The information on customer feedback that is reported via the Value Creation Consolidated Reports is intended to assist Centrelink in improving its current and future service delivery.

2.86 However, as discussed in the section on Monitoring of the Value Creation program, the information contained in these reports needs to be used with some caution, given the issues relating to customer and staff selection and the lack of national coverage. Also, given the focus group nature of VCWs, aggregated information should be used in context, and not used as representative of all customers' views.

2.87 In discussions with the ANAO, the NVCT acknowledged that the data are only indicative. However, data from VCWs are still used extensively, particularly in relation to identifying customer values and irritants.

Values and irritants

Values

2.88 During a Primary Workshop customers are asked by the facilitator to identify the key values that they believe would characterise a 'best in the world' Centrelink service.⁵⁹ Each of the values identified by customers are

⁵⁸ Centrelink, *Fitzroy Centrelink Service Centre, Value Creation Workshop*, op. cit., p. 3.

⁵⁹ Centrelink, *Period 12 Primary Consolidation Report*, p. 18.

grouped in the consolidated reports into one of 12 'value groups' according to its thematic content.⁶⁰

2.89 At the start of a Primary Workshop customers are presented with a Value Creation Workshop Participants Booklet (the booklet). The facilitator then takes some time to work with the customers and the booklet, and asks them to think about their own view of the 'best in the world' provider of government services and to answer the following questions:

- What key elements of your vision of the "Best in the World" provider of government services come clearly to mind?
- What did you value most about this service provider? What was new? What was different?
- What were the major services provided by the "Best in the World" provider of government services?
- What criteria did you use to judge the quality of these services? What constituted excellence?
- How did you find the people who served you in the "Best in the World" service provider? Their appearance, professional skills, interpersonal skills? What was it about them that you liked the most?
- You have easy and convenient access to service because of your "Best in the World" provider of government services. What are the major services you receive and from where that contribute to your convenience?
- Looking back, what were the unique features that set your "Best in the World" provider of government services apart? What was different and new?
- When you receive services from your "Best in the World" provider of government services, how important to you are: Timeliness of Service Delivery? Responsiveness? Empathy? Accessibility? Information? Simplicity and clarity? Out of hour's access? Honest, Trust and Integrity? Innovation? Ease of payment? Courtesy? Integration with other services? Performance? Reliability? Confidentiality? Etc.⁶¹

2.90 The above questions are quite complex. The premise is that the customers put themselves in the place of obtaining service from a mythical 'best in the world' provider may be problematic. Customers may find it difficult to imagine what was new or different in the 'best in the world' service organisation; rather they may think in terms of what is lacking in Centrelink. While the intent may be to discover what customers most value in service

⁶⁰ *ibid.*

⁶¹ Centrelink, *Value Creation Workshop: Participant's Booklet*, pp. 4, 6.

delivery, the above exercise may not deliver this other than in terms of what is currently available from Centrelink. Centrelink advised the ANAO on 1 September 2004 that it had received no reports of customers experiencing difficulty with the process.

2.91 The top six customer value groups are reported for each corresponding six-month period in the Value Creation Consolidated Report. In each of the six Value Creation Consolidated Reports that have been prepared since December 2001, the top reported value has been 'friendly, helpful and courteous/caring staff'.⁶² Furthermore, various combinations drawn from four values have been consistently identified in each of the five Value Creation Consolidated Reports prepared since December 2001, as constituting the top three customer values.⁶³ While at the local level there may be differences in sub-categories of values, the aggregated national level data does not reflect these differences.

Irritants

2.92 During a Primary Workshop, customers are asked to identify issues or concerns that damage or prevent the provision of high levels of service in Centrelink.⁶⁴ The facilitator asks customers to provide information and openly discuss their experiences in dealing with Centrelink, in order to identify areas where Centrelink is failing to provide customers with a basic or expected level of service.⁶⁵

2.93 The booklet provided at the beginning workshop asks customers to think about the service that is provided by Centrelink and to answer the following questions:

- What is it about Centrelink that disappoints or annoys you overall;
- What are the things generally which really irritate and upset you and you wish would never occur again;
- When thinking about the particular services you receive from Centrelink, what specifically annoys, irritates or upsets you the most;
- Thinking about the government services that you receive, that is: (receiving information, giving information and filling in forms, service delivery, dealing with staff, waiting, communications, feedback, reports, benefits, handling complaints/problems, etc.) - What part of the process gives you the most problems; and

⁶² Centrelink, *Period 13 Primary Consolidation Report*, p. 21.

⁶³ *ibid.*

⁶⁴ Centrelink, *Facilitators Guide, Standard Value Creation Workshops*, 2001, p. 10.

⁶⁵ Centrelink, *Period 12 Primary Consolidation Report*, *op. cit.*, p. 7.

- What are the major consequences for you of poor service provided by Centrelink?⁶⁶

2.94 Once customers consider these questions and record their concerns, the facilitator asks customers to identify their five most important concerns and issues that they believe that are ‘currently damaging or preventing the development of a high service level by Centrelink’.⁶⁷ Customers are asked to summarise these five main concerns on separate post-it notes, and make a severity determination against each concern or issue.⁶⁸

2.95 Customers are also asked to evaluate the overall quality of service provided by Centrelink by answering a series of questions. The facilitator then discusses the results of responses to these questions with customers.⁶⁹ This process is separate from the recording of the issues on the post-it notes. The customers may, if they choose, raise in discussion some or all of the issues they have recorded.

2.96 During a Primary Workshop, irritants are grouped together and a ‘severity score’⁷⁰ is calculated. The severity score allows the irritants to be ranked according to their ‘relative importance’, in accordance with the ratings assigned by customers.⁷¹

2.97 The irritants identified by customers and their ‘severity score’ is reported in each Individual Value Creation Report. Centrelink staff who participate in the VCW undertake to identify areas for service improvement, based on obtaining information from the customers perspective on ‘irritants’ and other information raised during the workshop.

2.98 The top six customer irritant groups are reported for each corresponding six-month period in the Value Creation Consolidated Report. In each of the six Value Creation Consolidated Reports that have been prepared since December 2001, the top reported irritant has been ‘long waiting and delays’. Furthermore, various combinations drawn from four irritants⁷² have been consistently identified in each of the nine Value Creation Consolidated

⁶⁶ Centrelink, *Value Creation Workshop—Participant’s Booklet*, pp. 2–3.

⁶⁷ Centrelink, *Facilitators Guide, Standard Value Creation Workshops*, op. cit., p. 12.

⁶⁸ The three options available to customers for rating irritant severity are: ‘A’ for issues that make customers feel ‘disappointed’; ‘B’ for issues that make customers feel ‘upset’; and ‘C’ for issues that make customers feel ‘angry’.

⁶⁹ Centrelink, *Period 12 Primary Consolidation Report*, op. cit., p. 7.

⁷⁰ Irritants that customers rate as a ‘C’ are given six points, ‘B’ three points, and ‘A’ one point.

⁷¹ Centrelink, *Period 12 Primary Consolidation Report*, op. cit., p. 7.

⁷² These irritants comprised: long waiting times and delays; poor staff attitude; unclear, irrelevant and excessive forms and paperwork; and lack of access to necessary and correct information.

Reports prepared since December 1999, as constituting the top three customer irritants.

2.99 Centrelink's *Draft Customer Experience Strategy 2004–2006*, utilised the feedback obtained from customers about irritants, stating:

Feedback from customers, through Value Creation Workshops between January and June 2003, has identified a number of customer irritants as key contributors to our failure to provide customers with a quality service experience. Of concern is the recurring nature of these reported irritants—the four listed below have consistently been identified by customers over the last two years:

- Long waiting time and delays
- Unclear, irrelevant and excessive forms and paperwork
- Poor staff attitude
- Lack of access to necessary and correct information.⁷³

2.100 Given there has been little change in the values and irritants identified by the VCW process over time, and given the cost of the VCW program, there may need to be an evaluation of the ongoing value of the process to identify values and irritants.

Costs

2.101 The ANAO was unable to assess the actual total cost of the VCW program, as Centrelink was not able to provide costings on all of the elements of the program. During fieldwork, the ANAO asked Area and CSC Managers whether they knew the total, or average, cost of a VCW workshop. Most of the Managers interviewed were unable to provide this information, or even provide a 'guesstimate'.

2.102 In addition to the estimated total of \$4.4 million in payments Centrelink has made to the VCG over the seven years that the Value Creation program has been operating, there are a range of other costs borne by Centrelink relating to the program. These include:

- Centrelink's reimbursement of the VCG for some \$418 000 in expenses⁷⁴ incurred by the company since 1997 in relation to the provision of consultancy services⁷⁵ to Centrelink;

⁷³ Centrelink, *Draft Customer Experience Strategy 2004–2006*, p. 15.

⁷⁴ The figure of \$418 000 has been calculated on the basis of figures provided by Centrelink and covers the period up to the end of August 2004.

⁷⁵ These are payments made by Centrelink to the VCG to reimburse the VCG's expenses associated with the provision of consultancy services to Centrelink, such as airfares, accommodation and meals.

- Centrelink payments to the VCG, to cover payments made by the VCG, on Centrelink's behalf, to customers who attend VCWs;⁷⁶
- the expenses associated with holding workshops (including venue and refreshments);
- the costs to Centrelink of the time of its staff in participating in the workshops;
- the costs of any temporary staff brought into staff Centrelink offices during the time regular staff are out of the office attending workshops; and
- the costs of the staff and activities of the National Value Creation Team, including:
 - the training, supervision and accreditation of facilitators and the individual facilitator's time in preparing for and conducting workshops;
 - administration of the contract with the VCG; and
 - design and development of new types of VCWs.

2.103 However, these additional costs would be considerable given that more than 1 500 workshops have been conducted since 1997.

2.104 Given that the total cost of the VCW program is unknown, Centrelink is not in a position to evaluate the cost efficiency of the program. Also, without information on the cost of the program, better practice leading to cost savings cannot be identified. The ANAO considers that Centrelink would benefit from better monitoring of the cost of the VCW program, to ascertain relative productivity and cost efficiency, and to achieve future cost savings for greater effectiveness.

2.105 The lack of cost-related performance information relating to Centrelink processes has been raised previously in a Centrelink commissioned review and in ANAO Audit reports.⁷⁷

2.106 The 2002 Boston Consulting Group review of cost efficiency in Centrelink emphasised the need for Centrelink to improve cost-related performance information across the network.⁷⁸ In ANAO Audit Report No.4

⁷⁶ For example, Centrelink advised the ANAO that, in the 2003–04 financial year these costs amounted to \$51 080.

⁷⁷ Lack of cost-related performance information is also raised in ANAO Audit Report No.34 2004-05, *Centrelink's Complaints Handling System* and ANAO Audit Report No.35 2004-05, *Centrelink's Review and Appeals System*.

⁷⁸ The Boston Consulting Group, *Cost Efficiency Review*, October 2002.

2004–05, *Management of Customer Debt*, the ANAO was not able to assess productivity or cost effectiveness for Centrelink’s debt management activities, as Centrelink was not able to quantify many of its debt inputs or quantify many of its debt costs.⁷⁹ The ANAO found, therefore, that Centrelink was unable to ascertain relative productivity and cost efficiency of its debt management activities, and achieve future cost savings.⁸⁰

Payments to the VCG

2.107 Centrelink has provided information to the ANAO indicating that, up to the end of August 2004, the agency had paid \$4.4 million to the VCG since 1997.⁸¹ This total amount includes equipment hire, accreditation fees, licence fees and consulting fees.

2.108 Accreditation fees are a once-only fee of \$5 000 Centrelink pays to the VCG when a Centrelink staff member trained as a facilitator achieves accreditation in running a Primary Workshop. Centrelink estimates that 60 facilitators have been accredited since the commencement of the Value Creation program involving accreditation fees of \$300 000.

2.109 Until 1 July 2003, Centrelink paid a licence fee to the VCG in respect of each workshop conducted by Centrelink using the VCG’s VCW process. The July 1997 and September 1997 contracts specified that the licence fee for each VCW was \$500. From 1 January 2001, the licence fee moved to a sliding scale of between \$500 and \$200⁸² depending on the number of workshops conducted in each financial year:

2.110 Centrelink advised the ANAO that some 1 508 VCWs had been conducted up to 30 June 2003. Of these workshops, around 90 per cent incurred a licence fee of \$500 each. Of the remaining workshops, 81 incurred a licence fee each of \$400; and 33 incurred a fee of \$300 each. Accordingly, these VCWs attracted licence fee payments totalling \$738 900. Centrelink’s current contract with the VCG (which commenced from 1 July 2003) involves a fixed price licence fee arrangement over five years, regardless of the number of workshops held. The \$350 000 licence fee (excluding GST) was paid up front at the commencement of the contract.

⁷⁹ ANAO Audit Report No.4 2004–05, *Management of Customer Debt*, p. 58.

⁸⁰ *ibid.*, p. 15.

⁸¹ This amount excludes payments made by Centrelink to the VCG to reimburse the VCG’s expenses associated with the provision of consultancy services to Centrelink (such as airfares, accommodation and meals). Information provided to the ANAO by Centrelink indicates that, to the end of August 2004, total reimbursements to the VCG for such expenses over the four contracts have amounted to around \$418 000. In addition, Centrelink has reimbursed the VCG for the payments to customers for their expenses associated with attending VCWs, which the VCG make on Centrelink’s behalf.

⁸² For each financial year: 0-150 workshops—\$500 each; 151-200 workshops—\$400 for each workshop in excess of 150; 201–300 workshops—\$300 for each workshop in excess of 200; and 301 or more workshops—\$200 for each workshop in excess of 300.

Other costs of the VCG program

Payment of customers

2.111 All Centrelink customers who attend a VCW receive a payment from Centrelink of \$40. Centrelink makes this payment to its customers on the basis that it covers any out of pocket expenses.⁸³

2.112 The payment to customers is made by way of a cheque. Centrelink forwards the details of those customers who have attended a VCW to the Value Creation Group Pty Ltd, who then prepare and send a cheque to these customers on Centrelink's behalf. Centrelink is contractually obligated to pay the Value Creation Group Pty Ltd a cheque administration fee of \$8.25, for each cheque that they send on Centrelink's behalf.⁸⁴

2.113 Where customers live in a remote area, Centrelink will, on the request of the customer, make a payment directly in cash. Payment is made in this manner to assist those customers who have little access to banking services, and who would experience a delay in accessing a payment made by cheque.

2.114 During the introduction to a VCW, the facilitator discusses this payment with the customers who are participating. Centrelink, in conjunction with the VCG, has developed an instruction entitled *Centrelink Facilitators Guide, Standard Value Creation Workshop*TM (VCW guide) that assists facilitators in structuring this discussion. The VCW guide prescribes that each facilitator should explain to the customers that they will:

be reimbursed for out-of-pocket expenses and that this payment is not taken into account as income for Centrelink or taxation purposes.⁸⁵

2.115 Centrelink advised the ANAO on 1 September 2004 that this guide reference is a mistake and has been amended.

2.116 The VCW guide also provides a template for the letter that should be sent to customers confirming their attendance at a VCW. This template letter does not address the taxation implications of the \$40 payment that Centrelink makes to those customers who attend a VCW.

2.117 The guidance document, which was developed by the NVCT, provides staff organising a VCW with a script that it states should be used when recruiting customers for a VCW. The script states in relation to the payment made to customers, that: 'this will not be treated as income by Centrelink'.⁸⁶

⁸³ Centrelink, *Planning a Value Creation Workshop*, op. cit., p. 11.

⁸⁴ *Deed of Agreement between the Commonwealth of Australia Represented by Centrelink and Value Focusing Pty Ltd for the Provision of Value Creation Services*, 1 July 2003, Schedule 3, Clause 1.12(f), p. 37.

⁸⁵ Centrelink, *Facilitators Guide, Standard Value Creation Workshop*, op. cit., p. 7.

⁸⁶ Centrelink, *Planning a Value Creation Workshop*, op. cit., p. 11.

This could be confusing and would be clearer if the taxation implications were included in the statement.

2.118 During fieldwork, Centrelink advised the ANAO that its Tax Unit held informal discussions in early 2003 with the Australian Taxation Office (ATO) regarding the tax implications of the payments made to VCW participants. Centrelink advised that, at the time these discussions took place, it was decided not to seek a formal ruling, as the informal advice they received from the ATO was considered sufficient for their purposes. The informal advice Centrelink received from the ATO indicated that customers who receive a payment for participating in a VCW, and who lodged a tax return, would need to declare this payment as assessable income. These customers could then claim the actual expenses that were incurred in attending a VCW, where they constituted an allowable deduction. Centrelink further advised the ANAO that the agency has no intention, at present, to seek a formal ruling from the ATO on this issue.

2.119 The ANAO observed a Primary Workshop held by the Fitzroy CSC.⁸⁷ During this Primary Workshop, the facilitator explained to those customers participating that they should obtain independent advice regarding the payment that they would receive as a result of their attendance. The provision of this advice may indicate that there has been a change in Centrelink's view regarding the tax implications of the payments made to customers who participate in a VCW.

2.120 In the event that Centrelink facilitators running other VCWs have complied with the instructions contained in the VCW guide, that is, to inform customers that the payment is 'not treated as income for taxation or social security purposes', a number of Centrelink customers may have been provided with incorrect advice.

2.121 The ANAO found no evidence during the conduct of the audit that Centrelink had sought to contact those customers to whom it may have provided incorrect advice. Centrelink advised the ANAO on 21 January 2005, that it had subsequently checked with all VCW facilitators, and from this evidence it did not believe that customers had been given incorrect evidence.

⁸⁷ The ANAO audit team observed the entire Primary Workshop that was undertaken by the Fitzroy CSC, held at the Rydges Hotel, Carlton, Victoria on 14 September 2003.

Recommendation No.6

2.122 The ANAO recommends that Centrelink:

- (a) put in place systems to effectively monitor the costs of the VCW program; and
- (b) inform customers that the payment they receive for attending a VCW is income for taxation purposes.

Centrelink Response: Agree.

Evaluation of the Value Creation Program

2.123 The Department of Finance publication *Doing Evaluations A Practical Guide*, defines program evaluation as the systematic assessment of a program, or part of it, to assist managers and other decision-makers to:

- assess the continued relevance and priority of program objectives in the light of current circumstances, including government policy changes (that is, the appropriateness of the program);
- test whether the program outcomes achieve stated objectives (that is, its effectiveness);
- ascertain whether there are better ways of achieving these objectives (that is, its efficiency);
- assess the case for the establishment of new programs, or extensions to existing programs; and
- decide whether the resources for the program should continue at current levels, be increased, reduced or discontinued.⁸⁸

2.124 Significant resources are devoted to the VCW program. Centrelink places importance on it as 'leveraging cultural change to develop a customer-centric organisation'.⁸⁹ Further, Centrelink has had a long running contractual relationship with the VCG. Under these circumstances, ongoing evaluation of the VCW program would appear warranted to assess the value for money of the program and whether it is delivering the expected outputs and outcomes.

2.125 The ANAO requested information on any evaluations of the VCW program that had been undertaken by Centrelink. The ANAO was informed

⁸⁸ Department of Finance, *Doing Evaluations A Practical Guide*, 1994, p. 3.

⁸⁹ Centrelink, *Regulation 10 Approval for Spending Proposal Summary Paper*, op. cit., p. 1.

that, apart from a 1999 internal performance audit into the cost effectiveness of VCWs, no formal evaluation of the program has been undertaken.⁹⁰

2.126 The 1999 internal audit concluded that ‘the VCW program is meeting its stated objectives, however the overall link to a complete planning process is falling down’.⁹¹ The methodology used in the internal audit to assess whether the objectives were met was to ask staff who had attended a VCW, whether the VCW had met its stated objectives. Of those staff who responded to the internal audit survey, 82 per cent agreed that this was the case. However, the audit did not assess whether there was any observed, and maintained, cultural change. Surveying the staff involved would not provide an independent assessment as to whether they had changed their behaviour.

2.127 While the internal audit report concluded that the VCW program met its stated objectives, it found that ‘there is no system to monitor and evaluate the continuing cost effectiveness of the Value Creation Workshop program’⁹² and that ‘information to form an opinion on the program cost and cost effectiveness was not available’.⁹³ As discussed earlier, information on the total cost of the VCW program is still not available. The internal audit report recommended that ‘the continued value of the VCW process be reassessed before the expiry of the current contract’.⁹⁴ However, Centrelink signed two further contracts with the VCG to continue the VCW program, in 2001 and 2003, without at any stage undertaking such an evaluation. The procurement process involving the VCG is discussed in more detail in Chapter 3.

2.128 The internal audit report also found that ‘a significant proportion of VCW outcomes were not assessed for efficiency or effectiveness’.⁹⁵ The internal audit report stated that ‘of the 59 sites which could provide information on the Value Creation Workshop questionnaire, 40 per cent indicated that the site or Area Office did not monitor the implementation of VCW outcomes following the conclusion of the VCW’.⁹⁶ The ANAO also found inadequacies with the monitoring of the implementation of VCW outcomes (see paragraphs 2.62–2.68).

2.129 The ANAO found that there was a lack of monitoring of the effectiveness of the VCW program, and also limitations related to reported

⁹⁰ Email from the NVCT to ANAO, 25 May 2004.

⁹¹ Centrelink, *Value Creation Workshops Audit Report*, November 1999, p. 2.

⁹² *ibid.*, p. 5.

⁹³ *ibid.*, p. 5.

⁹⁴ *ibid.*, p. 5.

⁹⁵ *ibid.*, p. 6.

⁹⁶ *ibid.*, p. 6.

data. In order to effectively evaluate the VCW program, complete cost information is essential, as are accurate data related to monitoring and reporting.

2.130 On 21 September 2004, Centrelink advised the ANAO that:

In relation to evaluation, as detailed in the responses to the [ANAO's] VCW Part A issues paper, Centrelink has investigated evaluation options. Formal evaluation has been postponed given that the outcomes of the VCW process and the impact on cultural change both take a long time to emerge and that it is impossible to separate the causal factors.

As Centrelink advised in response to the Issues Paper—Part A VCWs, there is a range of options being considered on how best to properly assess the overall cost-effectiveness of the VCW process. For example:

- We have recently completed a cultural audit and it may be possible to use this as a baseline and conduct further audits following a series of VCWs.
- We are conducting an evaluation of the use of customer research outcomes from the process (a by-product of the cultural change process).

Nevertheless, whilst no formal evaluation of the VCW program has been undertaken due to the difficulty of measuring cultural changes, some 27 000⁹⁷ staff have participated in workshops and the individual workshop evaluations are overwhelmingly positive.⁹⁸

Centrelink is committed to evaluating the program when an appropriate methodology is identified.

2.131 On 9 November 2004, Centrelink advised the ANAO further as follows:

The Value Creation program has not to date been formally evaluated, however, a number of informal mechanisms including the individual workshop format itself contribute to ongoing assessment of its usefulness.

[ANAO has] previously been provided with a sample of consolidated results of the evaluation question used in primary VCWs. These evaluations are overwhelmingly positive, and cover such questions as whether the workshop was a valuable use of staff time, and whether the workshop identified improvement opportunities. Evaluation of the community-based workshops shows similar results.

⁹⁷ The ANAO notes that Centrelink does not keep any records of the staff members it selects participate in a VCW. The lack of attendance information prevents Centrelink from precisely establishing the number of staff who have participated in this process, and whether staff have attended multiple VCWs.

⁹⁸ Staff member's evaluations of the individual workshops they have attended relate to their individual experience of the day, they do not provide any information of the ongoing impact of workshops on the individual staff member's behaviour or Centrelink's broader culture.

The outcomes of individual workshops were constantly monitored by the [then] CEO as part of her Area Network oversight.

Centrelink has evaluated a number of major operational aspects of its business. These are risk-based and constrained by resources available to the organisation for evaluation. Consequently, VCWs were not rated highly as an organisational risk.

In terms of the effectiveness of the VCW program, it is timely after seven years of operation. We have scoped the terms of reference for a review of the Value Creation program, with this work to commence before the end of this calendar year. The terms of reference are attached.

2.132 The ANAO welcomes Centrelink's 9 November 2004 advice that, after more than seven years since the introduction of the Value Creation program, the agency is now to undertake an evaluation of its effectiveness in achieving the objectives sought from it by Centrelink. Such an evaluation would enable Centrelink to assess the value for money of the program and assess the appropriateness of continuing the program in its current form.

3. Value Creation Program Procurement Processes

Background

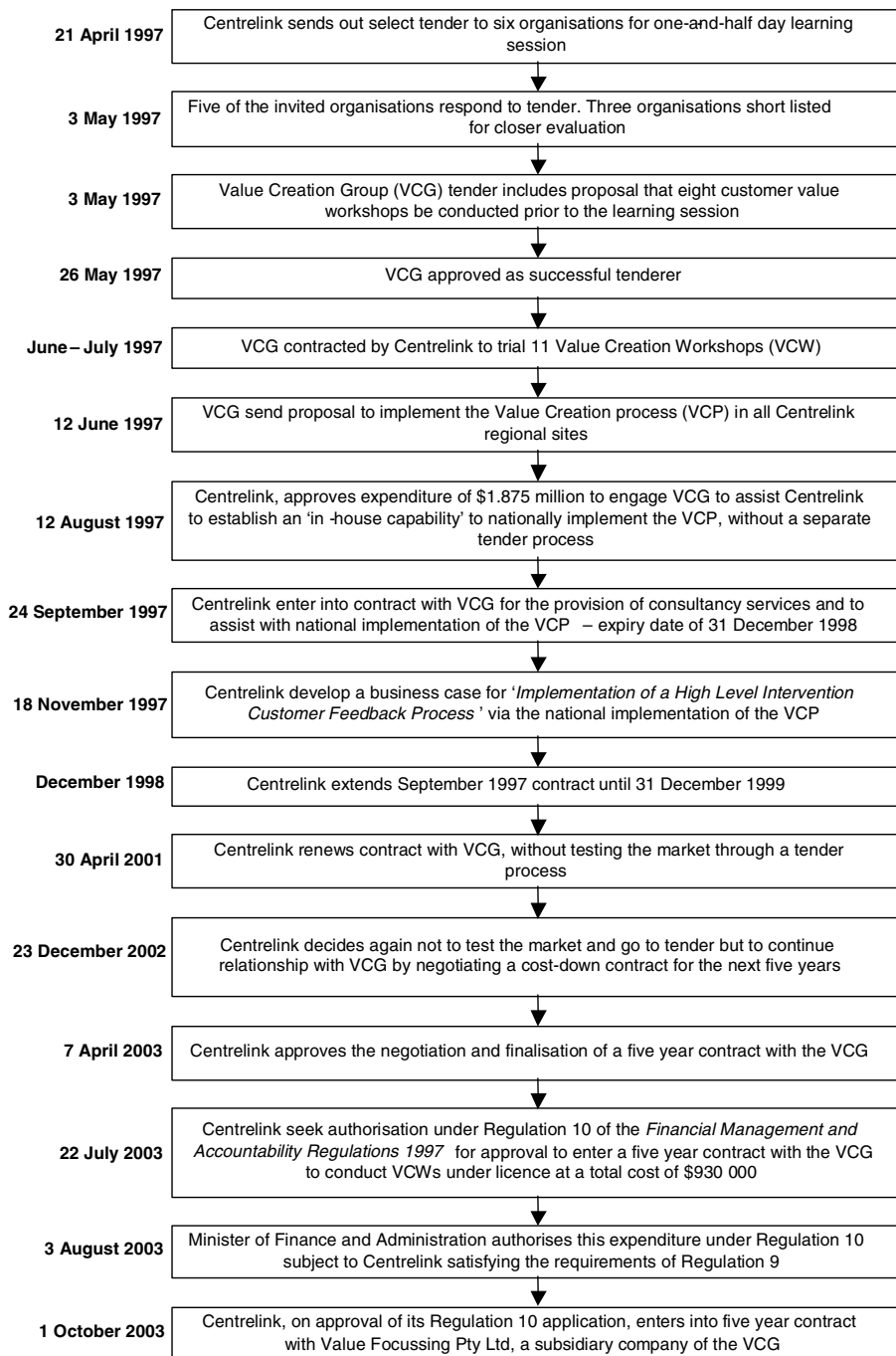
3.1 Centrelink was established under the *Commonwealth Services Delivery Agency Act 1997* which came into effect on 1 July 1997. However, the previous Department of Social Security (DSS) was effectively split into two agencies from December 1996. Elements destined to transfer to Centrelink, comprising the network and about half of the national administration, were identified (at that time a total of some 20 000 staff). The Commonwealth Services Delivery Agency (CSDA), eventually to be called Centrelink⁹⁹, was organised to operate as an administrative unit whilst still legally part of the Department.

3.2 The procurement process, which led to the adoption by Centrelink of the VCG's Value Creation process, commenced while what was to become Centrelink was still part of DSS. Figure 3.1 below sets out the chronology of events in the contractual relationship between Centrelink and VCG in relation to the VCW program from the date of the first tender to which the VCG responded through to the date of the current contract.

⁹⁹ In this report, the CSDA's current name, Centrelink, will be used for all references to the CSDA (except in direct quotes), including those relating to the period between December 1996 and 1 July 1997 when the CSDA existed as an administrative unit within the former Department of Social Security.

Figure 3.1

Procurement and Contract Management Timeline



Source: ANAO analysis of information from Centrelink.

21 April 1997 tender brief

3.3 On 21 April 1997, Centrelink sent out a tender brief and covering letter to six organisations inviting them to tender for the presentation of a one and a half day learning session to the third meeting of the Agency's senior management team (the 'Guiding Coalition').

3.4 Centrelink advised the ANAO on 21 September 2004, in regard to how the organisations to receive the tender brief were selected, that this select tender process 'involved seeking proposals from what were known at the time to be significant players in the field'.

3.5 The tender brief is replicated in Figure 3.2 below.

Figure 3.2

Tender brief issued by Centrelink on 21 April 1997 to six selected organisations

LEARNING SESSION—FOCUS ON CUSTOMERS	
Terms of Reference	
Background	
<p>The Commonwealth Services Delivery Agency (CSDA) has been created by the Commonwealth Government to deliver services to the public on behalf of a number of Commonwealth Government departments, commencing with DSS and DEETYA in mid-1997 and to include Health and Family Services from the beginning of 1998. The aim of this initiative is to provide quality customer service in a consolidated service environment.</p> <p>The CSDA will focus on improving customer service by simplifying and streamlining service delivery. It will do this by involving customers and the community in the way it does business and by involving and supporting staff in the way that business is delivered.</p> <p>The CSDA is currently developing, in consultation with staff, its strategic directions for the next 2 to 5 years. The CSDA, in consultation with customers and staff, is also developing a customer service charter.</p> <p>The CSDA is seeking innovative ways to involve customers in the determination of how the Agency will deal with its customer base.</p>	
Task Description	
<p>The CSDA is seeking high level input into the development of a shared understanding amongst its senior management team (the Guiding Coalition) of the importance of the shift to becoming a totally customer focussed organisation.</p> <p>An opportunity for building that shared understanding is being created at a meeting of the Guiding Coalition to be held in late June 1997. This is the third of these meetings, the draft strategic plan (available to interested consultants) is a product of the second meeting.</p> <p>The consultant will develop and present a 1½ day learning session at the meeting. The learning session should address the following proposed outcomes. A shared understanding of:</p> <ul style="list-style-type: none"> a customer view of the existing service relationships (both internal and external customers); what is involved in being customer focused (behaviours, structures and actions); 	

why we should be customer focused (the business imperative);

what we need to do to become customer focused; and

the role each member of the Guiding Coalition needs to play to ensure the success of the agency in customer focus terms.

Each consultant submitting for the task is required to provide a written submission outlining their approach to the task. Based on the submissions received, a shortlist of no more than three consultants will be identified. The consultants on the shortlist will be required to give a short presentation (half hour maximum) to the CEO and a high level group in Canberra. The successful consultant will be chosen based on their submission and short presentation.

The successful consultant will be required to produce a draft outline of the learning session and discuss the draft at a meeting in Canberra prior to the Guiding Coalition meeting.

...the leader of the Customer Service Theme Team is also available to provide background briefings (telephone xxxxxxx).

Source: Centrelink.

3.6 Five of the invited organisations responded to the tender brief, with three subsequently short-listed and invited to make a presentation to the CEO and a group of senior Centrelink officers.

3.7 The lowest of the three short-listed proposals for presenting a one and half day learning session was \$4 300 (all costs included) and the next most expensive was \$8 500 (including all costs except for the venue cost).

3.8 The VCG's proposal for the one and half day learning session was \$10 000–\$12 000 (excluding travel, accommodation and meals for the presenters). However, the VCG's 3 May 1997 proposal involved total costs of between \$42 000 and \$52 000 depending on the option selected by Centrelink, plus travel, accommodation and meals expenses. Some \$32 000 to \$40 000 of the proposal related to the conduct of eight Customer Value Workshops for the purpose of customer research with internal and external customers to inform the development of the learning session.

3.9 On 26 May 1997, the VCG was approved as the successful tenderer.

3.10 The total cost approved by the Centrelink delegate in relation to the tender for a learning session was \$47 000. The approval document signed by the delegate on 26 May 1997 recommended that:

the Value Creation Group be the successful tenderer at a cost of \$47 000. This amount is \$5 000 above the amount tendered for by the VCG. It allows for the conduct of one additional external customer focus group for the new student customer segment.¹⁰⁰

¹⁰⁰ Learning Session—Focus on Customers, 21 May 1997, Centrelink file ref 97/2136. Endorsed approved by the delegate on 26 May 1997.

3.11 Centrelink advised the ANAO on 24 May 2004 that an examination of the agency's files indicated the 26 May 1997 approval of \$47 000 (plus expenses) was for the conduct of a total of nine VCWs as well as the learning session. In June 1997, the Centrelink delegate signed a new approval under then Finance Regulations 44A and 44B, which included the conduct of ten Customer Value Workshops, for a total amount of \$80 000 (plus expenses). However, the contract Centrelink signed with the VCG for the conduct of this work, more than two months later on 31 July 1997, was for a total amount of \$70 000 (plus expenses).¹⁰¹

Evaluation process

3.12 It is a fundamental principle of government policy, and international best practice in government procurement, that agencies should conduct procurement in a manner that is open and transparent. Indeed, at the time that Centrelink conducted this tender in April/May 1997, the then Finance Regulation 43(1)¹⁰² provided that: 'A person who decides how supplies are to be procured must choose methods that will promote open and effective competition to the extent practicable'.

3.13 Sound administrative practice in tender evaluation also involves determining the basis on which the winning tender will be selected **before** the tender documentation is issued, and devising evaluation criteria that will provide a methodology for distinguishing between tenders on that basis. The basis for selection and the criteria should also be communicated to potential tenderers through tender documentation, so they have an informed basis on which to decide whether to prepare a tender.

3.14 At the time of the April 1997 tender, the then Finance Regulation 44A provided that:

a person is not to approve a proposal to spend public moneys unless satisfied that:

- (a) the proposal is in accordance with the policies of the Commonwealth; and
- (b) the proposed expenditure will make efficient and effective use of the public moneys available for the Commonwealth programs implementing those policies.

3.15 The then Finance Regulation 44B also provided at the time that a person must not enter into a commitment requiring the expenditure of public moneys unless the person who enters into the commitment is satisfied, after

¹⁰¹ Centrelink advised the ANAO on 21 September 2004 that 'the contract was prepared for \$70 000 because, by that time, there was more information on the likely costs.'

¹⁰² The then Finance Regulations were made pursuant to section 71 of the *Audit Act 1901*.

making such inquiries as are reasonable that, when the commitment is entered into the Commonwealth, is unable to obtain better value for the expenditure in all the circumstances.¹⁰³

Compliance with Finance Regulations

3.16 The VCG's 3 May 1997 submission, responding to the 21 April 1997 tender brief for the learning session, proposed as part of the development of the learning session, to conduct customer research with internal and external customers to supplement that already available. The process proposed by the VCG to undertake this research was the conduct of Customer Value Workshops using the VCG's Value Focussing Research process.

3.17 None of the four other respondents to the tender brief proposed conducting additional customer research in order to develop the learning session for the Guiding Coalition.

3.18 The covering letter Centrelink sent on 21 April 1997 to the six prospective tenderers with the tender brief did advise the organisations that 'the attached brief invites you to tender for the presentation of a 1½ day learning session and may include preparatory customer research'. However, the ANAO notes that the tender brief itself only requested submissions for the conduct of a specific task—the development and presentation of a one and a half day learning session to the Guiding Coalition.

3.19 Notwithstanding the mention of the possible need for the conduct of preparatory customer research in the covering letter sent with the tender brief, the tender brief itself did not mention the need for 'innovative customer research'. Yet, when Centrelink came to evaluate the proposals it received, the 'understanding of the need for innovative research' was included as one of the seven evaluation criteria against which the proposals were assessed.¹⁰⁴

¹⁰³ The requirement to make such inquiries as are reasonable, to satisfy the approver of a proposal to spend public money that the proposed expenditure will make efficient and effective use of public money is also now included in Regulation 9 of the *Financial Management and Accountability Regulations 1997*.

¹⁰⁴ The seven criteria used to evaluate the three short-listed proposals were as follows:

- understanding of the agency environment;
- understanding of need for innovative research;
- use of existing research;
- value for money;
- format and style of the learning session and presenter;
- experience/referees; and
- ability to produce outcomes specified in the brief.

3.20 The summary of reasons provided to the Centrelink delegate in support of the May 1997 recommendation to select the VCG as the successful tenderer was as follows:

The VCG:

- most clearly recognised the need to add value to existing quantitative research;
- was the only consultant to recognise the need for a more innovative approach to involving customers in the determination of how the Agency will connect with them;
- most clearly recognised that a learning session alone, without providing an understanding of the customer from the customer's perspective, was not going to lead to the cultural and value changes sought from the project; and
- was the only consultant to offer a model for further development of a customer focus beyond the learning session.

The VCG were preferred to the second placed consultant because of the above factors and also because they had a greater understanding of the Agency environment from past and present work with the DSS and DEETYA. The second placed consultant proposed the use of an interactive learning tool [trade name deleted], which was an innovative approach to the learning session itself but relied on the existing quantitative research alone in structuring the context of the session. The third placed consultant's approach, although the least expensive by a large margin, was that of a standard information session with minimal interaction and sessions broken only by video segments.¹⁰⁵

3.21 The ANAO notes that the reasons advanced for selecting the VCG as the successful tenderer, chiefly related to matters other than the learning session task specified in the 21 April tender brief.

3.22 The tender brief did not advise potential tenderers that Centrelink considered there was a definite need for additional customer research, and was seeking proposals for innovative approaches to undertake such research as a means of informing the development of the learning session. The tender brief also did not seek proposals for a model for ongoing development of a customer focus in Centrelink beyond the learning session.

3.23 Accordingly, the ANAO considers that the tender documentation provided to the six organisations invited to tender for the learning session did not advise them of, or give them any opportunity to respond to, what clearly became key criteria for selection as the successful tenderer - that is:

¹⁰⁵ Centrelink, *Learning Session-Focus on Customers* (Minute to Deputy Secretary, Corporate, CSDA) (97/2136), p. 1.

- the need to add value to existing quantitative research ;
- the need for a more innovative approach to involving customers in the determination of how Centrelink would connect with them;
- the requirement to recognise the fact that a learning session alone, without providing an understanding of the customer from the customer's perspective, was not going to lead to the cultural and value changes sought by Centrelink from the project; and
- the requirement to offer a model for further development of a customer focus in Centrelink beyond the learning session.¹⁰⁶

3.24 In this circumstance, in the ANAO's opinion, the tender brief Centrelink issued on 21 April 1997 did not adequately specify the agency's needs in function and performance, reducing the likelihood that invited tenderers would be in a position to make a proposal that would meet Centrelink's requirements. Accordingly, the opportunity for open and effective competition among the organisations invited to tender was restricted.

3.25 The ANAO also considers that Centrelink was not, therefore, well placed to assess the relative value for money of the VCG proposal. This is because, in ignorance of Centrelink's actual requirements, none of the other tenderers included in their proposals provision for customer research, yet the bulk of the cost of the VCG proposal accepted by Centrelink related to the conduct of such research.

3.26 Accordingly, the ANAO considers that the procurement process conducted by Centrelink for the July 1997 contract with the VCG was questionable in a number of respects.

3.27 Firstly, Centrelink did not fully comply with the open and effective competition requirements of the then Finance Regulation 43. Centrelink did not accurately advise the tenderers selected to participate in the procurement process for the development and conduct of a day and a half learning session for Centrelink's Guiding Coalition of the scope and nature of the task. Centrelink also did not communicate to the tenderers all of the evaluation criteria to be used to select the successful tender.

3.28 In addition, because of the deficiencies in the specification in the tender brief of the scope and nature of the agency's needs, Centrelink did not effectively test the market as to the availability, capacity and/or potential costs of possible alternative providers of other services that could enable the

¹⁰⁶ See paragraph 3.20 and the reasons advanced to the Centrelink delegate in support of the recommendation to approve the selection of the VCG as the successful tenderer.

achievement of the outcomes sought by Centrelink from the VCW process offered by the VCG.

3.29 The ANAO, therefore, considers there is insufficient evidence that Centrelink established the value for money of the VCG's 3 May 1997 proposal. There appears to have been insufficient evidence available to Centrelink to satisfy either the requirements of the then Finance Regulation 44A (regarding efficient and effective use of public moneys) or the requirement of the then Finance Regulation 44B (that reasonable inquiries be undertaken to establish that the Commonwealth would be unable to obtain better value for expenditure in all the circumstances).

First contract

3.30 Centrelink did not sign a contract with the VCG for the development and conduct of the learning session and ten associated Customer Value Workshops until 31 July 1997, more than two months after the initial decision to accept the VCG's proposal and 25 days after the learning session for the Guiding Coalition had taken place on 6 July 1997. The relevant Customer Value Workshops were conducted before the learning session on 6 July 1997.

3.31 Therefore, the written contract was not negotiated and signed until the overwhelming bulk, if not all, of the services being contracted for had actually been delivered.

3.32 The ANAO also notes that Centrelink made a payment of \$25 000 to the VCG on 26 June 1997 in consideration for services delivered under this contract. Accordingly, more than a third of the contract value was paid to the VCG more than a month before Centrelink had concluded negotiating the terms and conditions of the written contract. While not a significant amount of money was involved, the processes used were inadequate and well short of required practice.

Decision to proceed with national rollout of VCWs

3.33 At Centrelink's request, on 12 June 1997, the VCG submitted a proposal 'outlining how the Value Creation Group Pty Ltd can assist the Commonwealth Service Delivery Agency (CSDA) implement the propriety Value Creation Process in all regional sites in the most cost effective way.'

3.34 Centrelink made this request prior to the Guiding Coalition learning session on 6 July 1997 and the completion of all of the initial ten workshops, and prior to the development and approval of any business case identifying the need to implement such a program across the Centrelink network.

3.35 In addition, the ANAO notes that the VCG was the only organisation approached by Centrelink to provide a proposal in relation to the work involved in assisting Centrelink to achieve the objectives sought from the VCW program, that is to:

- understand customers' most important needs overall;
- understand the most important areas for Centrelink to focus on for service improvement;
- provide a guide for implementing change at policy, strategic and tactical (day-to-day behavioural) levels;
- provide inputs for Business Improvement Planning throughout Centrelink;
- connect Centrelink employees to customers' needs to support the customer-driven change process.¹⁰⁷

3.36 On 11 August 1997, a minute was put to the relevant Centrelink delegate recommending the national rollout of VCWs and stating 'This proposal follows the successful trial of Value Creation Workshops with the Guiding Coalition on 6 July 1997 and earlier successful trials held elsewhere in the CSDA'.

3.37 Centrelink advised the ANAO on 24 May 2004 that:

As discussed, and as reflected in the documents already provided which relate to the initial implementation of the workshops in Centrelink, there was no additional evaluation or market testing once the VCG's [May 1997] proposal was accepted. The initial series of VCWs served to convince the then decision makers that this process was appropriate to the needs of the new organisation. It was understood that VCWs were a proprietary process, which would therefore be unavailable through other suppliers. The VCG was asked to propose a means by which to conduct a VCW for every significant Centrelink site by the end of 1997. Their response gave rise to the August 1997 submission to create the internal capacity to conduct workshops using Centrelink staff.

3.38 The 11 August 1997 submission to the Centrelink delegate seeking approval for the national implementation of the VCG's Value Creation process stated the following in relation to the procurement aspects of the proposal:

The Value Creation process, which is a proprietary product of the Value Creation Group, came to the notice of the CSDA following a tender evaluation of five potential providers who were invited to submit proposals for an innovative learning experience to help the CSDA senior executive team (Guiding Coalition) form a shared understanding of the importance of becoming a customer focused organisation...

¹⁰⁷ Centrelink, *Value Creation in Centrelink, An Introduction*, op. cit., p. 3.

The proposal from the VCG is particularly suited to the current needs of the CSDA. The unique solutions offered by the various providers in the market place specialising in customer driven cultural change make it difficult to make objective assessments about the relative value for money presented by potential service providers. However, the per diem fee proposed by the VCG of \$1,690 is comparable to market rates for external consultancy work which sit around \$2,000 per day.

3.39 The submission recommended that the Centrelink delegate approve:

- expenditure of \$1.452 million in 1997–98 and \$0.423 million in 1998–99 to engage The Value Creation Group Pty Ltd (VCG) to assist the CSDA to establish an ‘in house’ capability to implement its proprietary Value Creation process; and
- that you approve, in principle the proposal submitted by VCG as the basis for the negotiation of a contract as soon as possible.

3.40 On 12 August 1997, without the conduct of a further tender process, Centrelink approved the national implementation of the Value Creation process in the agency from early September 1997 to the end of December 1998.

3.41 The Centrelink delegate signed approvals under then Finance Regulations 44A and 44B in respect of the 11 August 1997 submission’s recommendations and endorsed underneath these approvals as follows:

This approval recognises that there is one supplier of the intellectual property known as Value Creation and I note the cost analysis in attachment C which enables the product to be transferred to the CSDA.

3.42 Centrelink subsequently negotiated a written contract with the VCG for the national rollout of the Value Creation process, which was signed on 24 September 1997.

Business case for the VCW program

3.43 The business case for the VCW program, that is the decision for a ‘high level intervention customer feedback process in Centrelink’, stated the following in relation to ‘Scope of the proposal, Assumptions & Constraints’:

It is proposed that Centrelink implement a high level customer feedback process which provides all staff with the opportunity to personally listen to and understand what our customers value when they do business with Centrelink. This could be achieved by staging workshops involving a combination of quantitative and qualitative research with an equal number of participating customers and staff.

The research effort would be supported by putting in place change agents in every Customer Service Centre who would be trained in change management techniques. The process of getting staff to sit down and listen to their customers would be repeated during an 18 month period.

3.44 The ANAO notes that this business case was not prepared and signed until 18 November 1997, nearly two months after Centrelink signed an \$1.8 million contract with the VCG to engage the company to assist Centrelink in establishing an ‘in-house’ capability to implement the VCG’s Value Creation process across the Centrelink network.

September 1997 contract—procurement issues

3.45 As previously mentioned, the Finance Regulations applying in 1997 required¹⁰⁸ persons performing duties in relation to procurement to have regard to the Commonwealth Procurement Guidelines (CPGs) (as indeed do the current FMA Regulations¹⁰⁹).

3.46 The relevant CPGs¹¹⁰ did not rule out agencies concluding that a sole source tender was the appropriate procurement methodology to adopt, in all of the circumstances of an individual procurement. However, the CPGs also advised agencies that:

Value for money is the essential test against which any procurement outcome must be justified. It is not an attribute or criterion in itself but is a basis for comparing alternatives so that the most cost-effective one can be chosen.¹¹¹

3.47 As discussed above, Centrelink’s only approach to the market in the course of deciding to roll out the Value Creation process across the Centrelink network was a select tender, issued to six prospective tenderers, for something else entirely - a one and a half day learning session for the agency’s Guiding Coalition (with or without preparatory customer research).

3.48 Centrelink did not approach the market seeking proposals to assist Centrelink with the implementation of a national program to achieve the objectives sought from the VCW program.

3.49 Centrelink has advised the ANAO that it believes that the VCG was the only provider who could provide the services that it required. On 24 May 2004, Centrelink advised the ANAO that ‘it was understood that VCWs were a proprietary process which would not therefore be available through other suppliers.’

3.50 It was on this basis that Centrelink considered that it was appropriate to directly approach the VCG to provide these services, without testing the market.

¹⁰⁸ Finance Regulation 42.

¹⁰⁹ Financial Management and Accountability Regulations, Regulation 8.

¹¹⁰ The version of the Commonwealth Procurement Guidelines issued 1 July 1997, and indeed subsequent versions.

¹¹¹ Commonwealth Procurement Guidelines, July 1997, p. 9.

3.51 However, in reaching this view, Centrelink made two assumptions. Firstly, that the Value Creation process, used to conduct VCWs, was a unique, proprietary process not available in any similar form from an alternative supplier(s). Centrelink has not been able to provide the ANAO with evidence of any inquiries undertaken by the agency at the time to establish that the agency's assumption was correct.¹¹²

3.52 In this regard, the ANAO received legal advice that raises questions about whether the Value Creation process itself is intellectual property (IP) as 'ideas and concepts are not recognised as IP under Australian law (although the physical embodiment of the process may attract IP, ie trade marks, software and documentation).'¹¹³

3.53 Centrelink's second assumption was that alternative suppliers did not exist that could provide other services, which would enable the achievement of the outcomes sought by Centrelink from the VCW process.

3.54 Centrelink has also been unable to provide the ANAO with evidence of any inquiries undertaken by the agency to establish the accuracy of this assumption, either in the course of deciding in August 1997 to approve the national rollout of the Value Creation process, or in negotiating the subsequent September 1997 contract with the VCG.

3.55 On 9 November 2004, Centrelink provided the following statement in relation to the context in which the decision was taken in August 1997 to roll out the Value Creation process across the Centrelink network:

¹¹² The ANAO notes the September 1997 contract between Centrelink and the VCG provides at clause 7.1 that intellectual property in all contract material vests in the Commonwealth. Clause 7.2 of the contract provides that clause 7.1 does not affect the ownership of intellectual property in any existing material owned by the VCG which is specified in Schedule 1, Item G of the contract. Item G states the existing material as the Value Creation workshop concept and Value Creation process

¹¹³ Legal advice provided to the ANAO in August 2004.

Figure 3.3

Centrelink 9 November 2004 statement regarding the context of the decision to roll out the Value Creation process across the Centrelink network

The agency was aware that, in bringing together the network operations of DSS and the CES, a customer focussed culture was a priority if the agency was to achieve the purpose set for it by the Government. Not least in creating this customer focussed culture were the key findings and recommendations of the ANAO performance audit of *Customer Service in the Department of Social Security* (tabled 20 December 1996) which included Key Findings:

14.

"In setting up the proposed new service delivery agency a customer focussed strategic direction needs to be developed, delivered and reinforced in such a way that will ensure ownership by all managers and staff."

And 24

"While the recent work planned and already under way by the Department represents significant improvement in the collection of customer data in DSS, there is scope to improve the access to customer data by staff and managers in local offices."

and 27

"The value to managers at all levels in DSS of increasing their contact with customers needs to be promoted and its occurrence increased to ensure that managers have a better understanding of the impact of their decision-making through direct involvement with customers and, as a result, ensure meaningful consultation with customers."

The agency knew that external consultants were needed to achieve these outcomes. In inviting the six organisations to respond, the agency believed it was approaching those organisations pre-eminent in the field of customer focussed cultural change. On the basis of their submissions and, in the case of the three short listed invitees, their presentations, the agency selected Value Creation Group (VCG), in accordance with the tender brief.

To ensure that the concept presented by the VCG was viable and practical, a limited number of workshops were conducted to 'prove' the concept. Those workshops were closely monitored by Centrelink and all aspects of the workshops including customer reactions, outcomes, learnings and local improvement plans were assessed as being powerful drivers of customer focussed change.

In proceeding to a sole source tender negotiation to roll out the Value Creation workshop capability, the agency believed that the process of designing, managing and conducting the workshops was a proprietary product of VCG and as such not able to be used as a specification for public tender.

Source: Centrelink.

3.56 The ANAO considers that Centrelink did fully not comply with the requirements of the then Finance Regulations before deciding to sole source the September 1997 \$1.875 million contract with the VCG.¹¹⁴

3.57 There was a lack of open and effective competition in relation to the September 1997 contract. Centrelink did not provide any opportunity to suppliers other than the VCG to submit a proposal in respect of the work covered by this contract. That is, to assist Centrelink with the implementation of a national program to achieve the objectives sought from the VCW program.

3.58 The ANAO considers that Centrelink did not undertake sufficient inquiries to determine that:

- the Value Creation process was indeed a proprietary process, not available in any similar form from an alternative supplier(s); and
- no alternative suppliers existed, which could provide other services, that would enable the achievement of the outcomes sought by Centrelink from the VCW process.

3.59 Without this information, ANAO considers that Centrelink lacked sufficient evidence to determine whether the VCG's 12 June 1997 proposal, and the September 1997 contract the agency subsequently negotiated with the company, would make efficient and effective use of public money and offered the Commonwealth value for money.

Extension to September 1997 contract

3.60 The term of the September 1997 contract originally extended from 1 August 1997 to 31 December 1998. However, a variation signed by the parties in December 1998 extended the term of the contract until 31 December 1999.

3.61 A November 1999 audit, conducted by Centrelink internal audit, noted that the extension of the contract had been 'done automatically because of requirements in the Business Partnership Agreement with the Department of Family and Community Services.'¹¹⁵

3.62 The 1999 internal audit also found that there was no system to monitor and evaluate the continuing cost effectiveness of the VCW program, and noted that it was therefore 'not possible to assess whether the total monetary and

¹¹⁴ In August 1997, the then Finance Regulations 44A and 44, respectively, required Centrelink to establish that the proposed expenditure under the September 1997 contract with the VCG would make efficient and effective use of public moneys and also that the agency undertake sufficient inquiries to establish that the Commonwealth was unable to obtain better value for money in all the circumstances. The then Finance Regulation 43 also required 'a person who decides how supplies are to be procured must choose methods that will promote open and effective competition to the extent practicable.'

¹¹⁵ Centrelink Internal Audit, *Value Creation Workshops*, November 1999, p. 5.

resource investment expended in the VCW process has resulted in a positive or negative outcome for Centrelink'.¹¹⁶

3.63 The internal audit report recommended that the continued value of the VCW process be reassessed before the expiry of the extended term of the contract on 31 December 1999. This did not occur.

3.64 As noted in paragraph 2.130, Centrelink advised the ANAO, in September 2004, that:

Formal evaluation [of the VCW program] has been postponed, given that the outcomes of the VCW process and the impact on cultural change, both take a long time to emerge and that it is impossible to separate the causal factors.

3.65 Centrelink further advised the ANAO that 'Centrelink is committed to evaluating the program when an appropriate methodology is identified.'

3.66 On 9 November 2004, Centrelink further advised that 'the outcomes of individual workshops were constantly monitored by the [then] CEO as part of her Area Network oversight' and that Centrelink 'have now scoped the terms of reference for a review of the Value Creation program, with this work to commence before the end of this calendar year'.¹¹⁷

3.67 The ANAO welcomes Centrelink's decision to now undertake its first evaluation of the effectiveness of the program in achieving the objectives sought from it by the agency, even if more than seven years after the agency commenced the VCW program. However, this means that, up to now, Centrelink has not had available to it information on the effectiveness, and accordingly the value for money, of the VCW program to inform the agency's various decisions to enter into further contracts with the VCG.

April 2001 contract

3.68 On 1 January 1998, the *Financial Management and Accountability Act 1997* (FMA Act) commenced. Section 44 of the FMA Act provides that 'A Chief Executive must manage the affairs of the Agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible.'

3.69 In addition, FMA Regulation 9 requires approvers of spending proposals not to approve a proposal to spend public money unless the approver is satisfied, after making such inquiries as are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of public money.

¹¹⁶ *ibid.*

¹¹⁷ See paragraph 2.131 for the full text of Centrelink's 9 November 2004 advice on evaluation of the Value Creation Program.

3.70 The extended term of the September 1997 contract with the VCG expired on 31 December 1999. However, Centrelink continued to operate the VCW program using the arrangements set out in the expired contract, for some sixteen months after the contract expired, while it negotiated a further contract with the VCG. This contract was signed on 30 April 2001 with an expiry date of 31 December 2002.

3.71 Centrelink did negotiate improvements in the terms and conditions of the April 2001 contract with the VCG as compared to the September 1997 contract.¹¹⁸

3.72 As previously discussed, before signing the September 1997 contract, Centrelink had not tested the market to establish whether other suppliers were capable of providing alternatives that could effectively, efficiently and economically be used to achieve the outcomes sought by the agency from using the VCG's services/products. Before signing the further contract with the VCG in April 2001, Centrelink did not conduct any evaluation of the effectiveness and/or value for money of the VCW program, nor did the agency approach the market to test the value for money of this further contract with the VCG.

3.73 Accordingly, the ANAO considers that, in deciding to enter into the April 2001 contract with the VCG, Centrelink did not have sufficient evidence available to it to satisfy the requirements of FMA Regulation 9, that the proposed expenditure would make efficient and effective use of public money.

October 2003 contract

3.74 On 28 June 2002, the Manager of the NVCT submitted a paper to the then CEO of Centrelink providing options for Centrelink to consider around the issue of the agency's contract with the VCG. The covering minute to the paper noted that the contract with the VCG was due, at that time, to expire at the end of 2002. The minute requested the then CEO's input and presented the following five options:

1. Renew the contract with the VCG (at a lower overall cost).
2. Contract another provider with a better product.
3. Create a VCW look-alike.

¹¹⁸ For example, under the September 1997 contract, a fee of \$5,000 per computer that the software was loaded onto was payable. Under the April 2001 contract, no separate fee was payable for software, rather it was rolled into the general licence fee for VCWs. In addition, the licence fee for each VCW changed from a flat fee of \$500 per workshop under the September 1997 contract to a sliding scale under the April 2001 contract, with the cost reducing as the number of workshops conducted increased. The sliding scale ranged from \$500 per workshop between 0 and 150 workshops in a financial year to \$200 per workshop for each workshop in excess of 300 in a financial year.

4. Purchase a permanent licence from the VCG.
5. Cease to run VCWs (and not replace them with something else).¹¹⁹

3.75 The covering minute advised the then CEO that the preferred options were numbers 1 and 4. The minute also advised the then CEO that:

There is also a decision to be made as to whether it is necessary to test the market via an Expression of Interest process (EOI), which is not compulsory but strongly recommended by the Purchasing and Contracts Unit.

3.76 The then CEO decided in December 2002, on the basis of the advice provided in the 28 June 2002 options paper, to continue the relationship with the VCG rather than to test the market. The Purchasing and Contracts Unit noted that the reasons for the then CEO's decision were Centrelink's unique relationship with the provider and the level of investment that had gone into that relationship to date.¹²⁰

3.77 On 7 April 2003, in light of concerns raised by the Purchasing and Contracts Unit about being confident of gaining value for money without going to open tender, the National Manager of the Current Customer Experience Team submitted a further paper to the then CEO providing additional advice in support of the proposal not to test the market.

3.78 The paper stated that there were 'other companies in the market offering to provide a workshop service'. However, the paper summarised the arguments for proceeding with a new contract with the VCG, without first testing the market, as follows:

- The minimum savings from the VCG contract to date are estimated at \$145 000.¹²¹
- The new contract has the potential to offer a further savings on the existing contract at least (sic) \$320 000 over the five year period (fixed price plus equipment).¹²²

¹¹⁹ Memorandum dated 28 June 2002 from the Manager of the NVCT to the Chief Executive Officer—Contract with Value Creation Group.

¹²⁰ Email, 23 December 2002.

¹²¹ Centrelink calculated these savings on the basis of services it considered the contractor had provided free of charge over the previous five years, but for which under the terms of the various contracts between the parties the contractor could have charged Centrelink. Paper provided to the then CEO, *Value Creation Workshop new Contract with VCG*, 7 April 2003, p. 2.

¹²² The 7 April 2003 paper provided to the then CEO advised that these savings were calculated on the following basis:

'Licence fees—For a new contract - a fixed price up front licence fee arrangement for \$350 000 for a five year licence, regardless of the number of workshops held. Centrelink calculated that on its then current rates of use (about 200 VCWs per year), this would generate a minimum saving of \$150 000. Centrelink also noted that because the rates under the previous contract were per workshop, any increase in the number of workshops conducted by Centrelink would generate further savings.

Equipment hire—the new contract proposal was to lease new equipment for \$420 000 payable in instalments. The current contract specifies equipment hire charges of \$120 000 per annum, or \$600 000 over five years. Savings under this proposal are therefore \$180 000.'

- Even if a new contractor agreed to the immediate handover of skills (unknown) additional estimated transition costs on a VCG contract would be in the order of \$250 000.¹²³

The VCG will provide the best price and the 'best value for money' in the market at the moment, for a unique product we have been using for five years, that has proven to provide quality outcomes, and which we are trained and skilled to deliver ourselves. Market competitors would not likely be in a position to provide the transfer of skills and other savings for some time, if at all. At the very least, we would incur significant transition costs for a product that is unproven, staff would need to become familiar with and learn to trust and we could risk litigation.

I believe it is not in Centrelink's interests to change providers at this point in time.

Accordingly, unless you object, I propose to proceed as soon as possible to finalise a five year contract formally with the VCG, as you initially requested.

3.79 The then CEO again accepted the advice not to proceed to tender.

3.80 On 3 November 2004, Centrelink advised the ANAO that:

The [then] CEO was party to detailed discussions before the details of the contract were negotiated. There were discussions about a contract with "cost-down" features and as the contract was being negotiated there were further discussions and the [then] CEO was kept informed.

FMA Regulation 10 approval

3.81 On 23 April 2003, the NVCT was advised by Centrelink's Financial Services Team that the Department of Finance and Administration (Finance) had advised Centrelink that authorisation by the Minister for Finance and Administration would be required for Centrelink to enter into a further contract with the VCG. In the same email, the NVCT was also advised that Finance had 'also raised concerns about the lack of tender process applied in the contract renewal process'.

3.82 However, the email went on to note that:

however, I understand that [the National Manager Current Customer Experience Team] obtained [the then CEO's] agreement that the tender process was not required because of the unique type of services being procured, so we have resolved that issue.

¹²³ The then CEO was advised that the costs of \$250 000 or more would arise because all of Centrelink's workshop facilitators would need to be retrained and accredited in the new workshop process. The paper stated 'With our current network of roughly 30 facilitators, training, supervision and accreditation could run to \$250 000 or more'. The paper provided to the then CEO did not include advice as to how this figure was calculated.

3.83 On 22 July 2003, Centrelink wrote to the Minister for Finance and Administration seeking his authorisation under Regulation 10 of the FMA Regulations to enter into a further five-year contract with the VCG. In the supporting submission attached to this letter, Centrelink stated, under the heading *Section 44 FMA requirement—How was the successful provider selected (eg tender process)*, the following:

The initial contract with the VCG resulted from an open tender.¹²⁴ That agreement expired in 1999, and a further contract was negotiated in 2000¹²⁵ which is still current. At the time of negotiating that agreement, the [then] CEO exercised her delegation not to test the market because the outcomes were high quality, and cost competitive.

For this proposed new contract, the [then] CEO also decided not to seek expressions of interest from the market, because we believe that:

- the VCG will provide the best price and the ‘best value for money in the market’ at the moment;
- for a unique product we have been using for five years;
- that has proven to provide quality outcomes;¹²⁶
- which we are trained and skilled to deliver ourselves;
- the contractor has provided significant savings to date (estimated at \$145 000);
- market competitors would not likely be in a position to provide transfer of skills and other savings for some time, if at all (estimated at more that \$320 000 over the five year period);
- at the very least we would incur significant transition costs for a product that is unproven (estimated at more that \$250 000);
- we could risk litigation.

3.84 Centrelink provided a further attachment to the letter to the Minister that set out its case to renew the contract with the VCG without a tender process. Among other things, this attachment noted the following:

¹²⁴ The original tender was a select tender issued to six prospective tenderers and related to a different task—that is, the development and presentation of a learning session to the Guiding Coalition in July 1997.

¹²⁵ Centrelink was in negotiations with the VCG during 2000, but the next contract was not signed until 30 April 2001.

¹²⁶ At the time of Centrelink’s July 2003 FMA Regulation 10 submission to the Minister for Finance and Administration, the VCW program had been underway for nearly six years but no evaluation of the program had been undertaken to establish either its effectiveness in achieving the outcomes sought by Centrelink from the program or its value for money.

The Value Creation Process was developed by the VCG under trade mark—it is a unique product that has provided Centrelink with an excellent means of investigating customer views, engaging staff in action planning around these views and a mechanism for leveraging cultural change to develop a customer-centric organisation.

The services, products and outcomes have been very good.

3.85 The Minister responded on 3 August 2003 providing his authorisation under FMA Regulation 10 for Centrelink officials to consider approving the proposal to enter into the further five-year contract with the VCG.

3.86 The ANAO also notes that the Minister stated in his 3 August 2003 letter, providing his authorisation under FMA Regulation 10, that:

Following this authorisation, Centrelink officials, in approving the spending proposals, will need to be satisfied that the contracts meet the requirements for the expenditure of public money set out in the FMA Regulations, in particular Regulation 9.

3.87 The ANAO notes that Centrelink's advice of 22 July 2003 to the Minister for Finance and Administration incorrectly stated that the initial contract with the VCG resulted from an open tender.

3.88 As set out above, the only tender process Centrelink has conducted in relation to its contracts with the VCG was a select tender, involving the issue, in April 1997, of a tender brief to six selected tenderers to conduct a one-off learning session in July 1997 for Centrelink's Guiding Coalition. Centrelink subsequently decided to enter into a series of contracts with the VCG in relation to Centrelink's national implementation of a 'High Level Intervention Customer Feedback Process'¹²⁷, without conducting any further tender processes or giving any other provider the opportunity to present a proposal to Centrelink in relation to this work.

3.89 Accordingly, it appears that the case put forward by Centrelink to the Minister for Finance and Administration seeking authorisation under FMA Regulation 10 may not have been entirely accurate.

Contract negotiations

3.90 To allow for the negotiations between the parties to be completed for the further five-year contract, the April 2001 contract was extended on two occasions, once until the end of March 2003 and subsequently until 31 December 2003.

¹²⁷ This is what the implementation of the Value Creation process was called in the November 1997 business case supporting the project - *Business case for high level intervention customer feedback process in Centrelink*, Customer Services Theme Team, November 1997.

3.91 The current contract, which superseded the last extension to the April 2001 contract, was signed on 1 October 2003. In its July 2003 FMA Regulation 10 submission, Centrelink provided a forecast to the Minister for Finance and Administration of \$930 000 in total commitments over the five-year term of the new contract and savings in the order of \$320 000, as compared to the terms of the previous contract.

3.92 A key change in the arrangements between the 2001 and 2003 contracts was that, up until the 2003 contract, Centrelink was obliged to pay a licence fee to the VCG every time Centrelink conducted a VCW. Under the new contract, Centrelink has broken the connection between activity and cost through a fixed price licence fee arrangement over five years, regardless of the number of workshops held. The \$350 000 licence fee (excluding GST) was payable up front at the commencement of the contract. Centrelink expects the new arrangement to deliver savings of around \$150 000 as compared to the previous contract with the VCG.¹²⁸

3.93 Other changes negotiated included a different approach to leasing the equipment provided by the VCG. Centrelink moved from annual payments of \$120 000 per annum under the 2001 contract to a total payment of \$420 000 (excluding GST) for the five-year term of the current contract. This amount is payable in two equal instalments, the first upon signing of the contract and the second due on 1 July 2005. Accordingly, Centrelink expects to save some \$180 000¹²⁹ in equipment hire charges over the term of the new contract as compared to the 2001 contract.

Decision to enter into October 2003 contract

3.94 The ANAO considers that there were significant gaps in the evidence relied upon by Centrelink in concluding that the requirements of the FMA Regulations had been met and so taking the decision to enter into a further five year contract with the VCG from 1 October 2003, as follows:

- taking the decision in May 1997 to select the VCG as the successful tenderer, for an initial approved amount of \$47 000, on the basis of a flawed tender process that had originally been conducted to identify a consultant to develop and deliver a one-off learning session to Centrelink's Guiding Coalition;

¹²⁸ ANAO notes that Centrelink's savings calculations do not take into account the time value of money implications of making an up-front lump sum payment.

¹²⁹ This calculation also does not take into account the time value of money implications of making an instalment payment of half of the equipment costs for the five year contract on commencement of the contract and the paying the remaining half as a lump sum two years later.

- prior to entering into a \$1.875 million contract with the VCG in September 1997¹³⁰ to roll out the Value Creation process across the Centrelink network, Centrelink did not provide any opportunity to suppliers other than the VCG to submit a proposal in respect of the work covered by this contract. That is, to assist Centrelink with the implementation of a national program to achieve the objectives sought from the VCW program;
- at key points, Centrelink has not undertaken adequate inquiries to establish that alternative suppliers could not cost-effectively provide other services/products that could achieve the outcomes sought by Centrelink from the Value Creation process;
- up until now, no evaluation has been undertaken of the cost and cost – effectiveness of the Value Creation program, despite the recommendation of the 1999 internal audit of the VCW program to do so prior to the expiry at the end of 1999 of the extended term of the September 1997 contract;
- no previous evaluation of the impact of the VCW program in terms of achieving its stated objectives, notwithstanding that the VCW program has now been underway for more than seven years;¹³¹ and
- at no stage, since first engaging the services of the VCG in 1997 in relation to the VCW program, has Centrelink tested the market to establish the relative value for money of the VCG’s various proposals.

3.95 Advice Centrelink has provided to the ANAO indicates that the four contracts awarded by Centrelink to the VCG, stemming from an original restricted tender in 1997 for a limited service, have now resulted in total payments by Centrelink to the VCG of some \$4.4 million as at the end of August 2004.¹³²

¹³⁰ The \$1.875 million amount related to the original term of the contract from September 1997 to 31 December 1998. However, the contract was extended for a further year to 31 December 1999 and Centrelink then continued to operate under the terms of the expired contract until a new contract was negotiated and signed on 30 April 2001.

¹³¹ However, the ANAO recognises Centrelink’s advice of 9 November 2004 that it has now scoped an evaluation of the Value Creation program to commence by the end of the 2004.

¹³² This amount excludes payments made by Centrelink to the VCG to reimburse the VCG’s expenses associated with the provision of consultancy services to Centrelink (such as airfares, accommodation and meals). Information provided to the ANAO by Centrelink indicates that, to the end of August 2004, total reimbursements to the VCG for such expenses over the four contracts have amounted to around \$418 000. In addition, Centrelink has reimbursed the VCG for the payments to customers for their expenses associated with attending VCWs, which the VCG make on Centrelink’s behalf.

3.96 The VCG was paid \$70 000 under the July 1997 contract awarded to the company following the select tender process for a learning session for the Guiding Coalition. Around \$4.33 million in total¹³³ has been paid to the VCG under the September 1997, April 2001 and October 2003 contracts. ANAO notes that the other tenderers in the original 1997 process, or indeed any other potential competitors in the market, have not had the opportunity to compete for these three, far more valuable, Australian Government contracts.

Recommendation No.7

3.97 The ANAO recommends that Centrelink takes the necessary actions to put in place systems to ensure that, in future procurements, it complies fully with the requirements of the Commonwealth's procurement policies and applicable legislation.

Centrelink Response: Agree.

Canberra ACT
9 March 2005



P. J. Barrett
Auditor-General

¹³³ Excluding expenses.

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