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Performance Audit

Management of Family Tax Benefit Overpayments

Australian National Audit Office

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Australian National
Audit Office

Canberra ACT
28 November 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit across agencies in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Management of Family Tax Benefit Overpayments.*

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

Ian McPhee
Auditor-General

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

AUDITING FOR AUSTRALIA

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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Abbreviations

AFRO	Assistance to Families at Risk of Overpayment
ANAO	Australian National Audit Office
ATI	Adjusted Taxable Income
ATO	Australian Taxation Office
CSO	Customer Service Officer
DMIS	Debt Management Information System
ECECET	Every customer, every contact, every time
FA	Family Assistance
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FAO	Family Assistance Office
FOG	FAO Operations Group
FOP	FAO Operational Processes Working Group
FTB	Family Tax Benefit
PPP	Parenting Payment Partnered
SMC	Strategic Management Committee

Glossary

Extended (or second) lodgement year	The passing of the *Family Assistance Legislation Amendment (Extension of Time Limits) Act 2004* on 1 April 2004 means a person now has a further 12 months, after the end of the lodgement year, to receive an FTB top-up and to claim a lump sum payment. Source: Family Assistance Guide, Section 1.1.L.30 – Lodgement year. <http://www.facs.gov.au/guides_acts/fag/faguide-1/faguide-1.1/faguide-1.1.l/faguide-1.1.l.30.html> [accessed 17 August 2006].
Family Assistance Guide	FaCSIA's *Family Assistance Guide* provides a comprehensive resource of policy advice and legislative interpretation in relation to the FTB Programme. Among other things, it outlines the FAO's responsibilities in relation to the identification, raising and recovery of Family Assistance debts. The Guide is available through FaCSIA's website, at http://www.facsia.gov.au. Note: Within this report, all but one reference to the Guide were current as at 17 August 2006. The one exception was current as at 24 August 2006. FaCSIA regularly updates the Guide to include new or revised material. ANAO used the latest information available from the version of the Guide current at the time of conducting this audit.
FTB Supplement payments	The FTB Part A supplement is a per child payment that was introduced for the 2003–04 financial year and is payable at the end of a financial year after reconciliation has occurred. It is a component of the maximum and base rates of FTB Part A although it cannot be paid fortnightly. The FTB Part B supplement is a per customer payment that was introduced for the 2004–05 financial year and is payable at the end of a financial year after reconciliation has occurred. It is a component of the maximum rate of FTB Part B, although it cannot be paid fortnightly. Source: FaCSIA, Family Assistance Guide Section 3.6.1 – FTB Part A historical rates and Section 3.6.3 FTB Part B historical rates. <http://www.facs.gov.au/guides_acts/fag/faguide-3/faguide-3.6/faguide-3.6.1.html & .../faguide-3.6.3.html> [accessed 17 August 2006].

Lodgement year	For the purposes of Family Assistance, the lodgement year is the financial year immediately following the relevant income year. It is the year in which the person is usually required to lodge a tax return in respect of the relevant income year. Source: Family Assistance Guide, Section 1.1.L.30 – Lodgement year. ibid.
Non-lodger	For the purposes of Family Assistance, a non-lodger is defined as a customer or the partner of a customer, who is required to lodge an individual tax return for the relevant income year but has not done so by March of the lodgement year. Source: Family Assistance Guide, Section 1.1.N.33 – Non-lodger. <http://www.facs.gov.au/guides_acts/fag/faguide-1/faguide-1.1/faguide-1.1.n/faguide-1.1.n.33.html> [accessed 17 August 2006]. Note: FaCSIA advised ANAO that, while letters are sent to 'potential non-lodgers' in March, the customer does not become a non-lodger until June of the lodgement year, and that the Family Assistance Guide will be revised to more accurately reflect this situation.
Reconciliation	Reconciliation is the process of determining a customer's final entitlement to FTB for the relevant income year. Depending on a customer's circumstances, this involves comparing the FTB payments a customer received during the relevant income year, based on their estimated adjusted taxable income (ATI), maintenance income, etc. with their final entitlement based on their: • actual ATI (provided in part by the ATO), and • actual maintenance income. Source: Family Assistance Guide, Section 6.4.1 – Overview of reconciliation. <http://www.facs.gov.au/guides_acts/fag/faguide-6/faguide-6.4/faguide-6.4.1.html> [accessed 17 August 2006].

Transitional waiver	Section 102 of the *A New Tax System (Family Assistance) (Administration) Act 1999* allows the Secretary to waive debts or parts of debts that are included in a class of debts specified by ministerial determination. Under the *Family Assistance Estimate Tolerance (Transition) Determination 2001* of 3 October 2001 by the Minister for Family and Community Services, the first $1 000 of certain FTB and Child Care Benefit overpayment amounts for 2000–01 were able to be waived. This measure is also referred to as the one-off $1 000 waiver of 2001.
Withholdings	Section 82 of the *A New Tax System (Family Assistance) (Administration) Act 1999* provides for FTB debts to be recovered by deductions from instalments of family tax benefit to which the debtor is entitled. This practice is known as 'withholding' part of the debtor's FTB payments. Standard rates apply to the withholdings for FTB debts. See discussion in Chapters 3 and 4.

Summary and Recommendations

Summary

Background

1. The Family Tax Benefit (FTB) Programme was introduced on 1 July 2000, to help eligible Australian families with the cost of raising children. In 2004–05,[1] the FTB Programme delivered a total of $13.9 billion to approximately 2.2 million FTB customers.[2] The FTB Programme effectively replaced nine separate types of assistance to families, previously delivered through both the taxation and social security systems. FTB consists of two parts—FTB Part A and FTB Part B.[3]

2. FTB payments are means-tested, with the rate of payment affected by the family's actual income in a particular financial year and the number, age and income of children for whom FTB is claimed. FTB Part A is the most common payment and is paid per child. It includes a supplement, also paid per child, after the end of the financial year. FTB Part B provides extra assistance to single parent families and two parent families with one main income. It also includes a supplement, paid per family, after the end of the financial year.

3. The Family Assistance Office (FAO) was established to enable customers to access the full range of family assistance services, including FTB Part A and FTB Part B, Child Care Benefit, Maternity Payment and Maternity Immunisation Allowance. The FAO is a 'virtual' agency resulting from a joint venture between Centrelink, the Australian Taxation Office (ATO) and Medicare Australia, with the Department of Families, Community Services and Indigenous Affairs (FaCSIA) responsible for overall policy and coordination.

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1 The latest, full financial year for which expenditure figures were available at the time of preparing this report. The matter of how FTB statistics 'mature over time' is discussed in Chapter 1. Due to the time allowed for past-period claims and the tax return lodgement and reconciliation processes, some statistics for a given FTB entitlement year may not stabilise until some 24 months after the end of the entitlement year.

2 The Family Assistance Office uses the term 'customers' to refer to eligible recipients of FTB payments.

3 FTB Part A replaced Family Allowance, Family Tax Payment (Part A) and Family Tax Assistance (Part A); and

FTB Part B replaced Basic Parenting Payment, Guardian Allowance, Family Tax Payment (Part B), Family Tax Assistance (Part B), the 'with children' rate of the Dependent Spouse Rebate and the Sole Parent Rebate.

4. Customers may lodge their FTB claim through any of the FAO agencies, and elect to have their FTB entitlements paid in a single annual payment or a series of fortnightly instalments.[4] On average, about 90 per cent of customers are paid through fortnightly instalments. When customers choose fortnightly instalments, the amount of FTB they receive is based upon an estimate of the family's adjusted taxable income for the relevant financial year. Fortnightly instalments are, therefore, prospective payments.

5. At the end of the financial year, when the customer, and their partner if applicable, has submitted their income tax return to the ATO,[5] the family's FTB entitlement is determined by the FAO and compared with the amount of FTB actually paid to the family during the year. This process is known as reconciliation. It involves an exchange of information between the ATO and Centrelink. Three outcomes are possible as a result of the reconciliation process—the customer has either been underpaid, paid the correct amount, or overpaid.

How FTB debts arise

6. Essentially FTB customers may incur a debt to the Commonwealth in one of four ways:

- **qualification**—where a family's circumstances change so that the family is no longer eligible for FTB, or no longer eligible for the rate of FTB paid;
- **reconciliation**—where the reconciliation process has determined that the customer has been overpaid, when compared to their correct entitlement;
- **non-lodger**—where the customer and/or partner have not lodged a tax return within the prescribed time, or have not informed the FAO that they are not required to lodge a tax return for the relevant financial year; and
- **administrative processes**—where a computer processing error, or human error on the part of a FAO staff member, causes the customer to receive more FTB than they are entitled to.

4 There are other payment options for customers that involve a combination of fortnightly instalments and a lump sum payment after the end of the relevant financial year.

5 Alternatively, customers who are not required to submit an income tax return in a particular financial year, are required to notify the FAO of this fact.

7. Once FTB debts are identified, through either an automated process such as reconciliation or the work of individual FAO staff, as is often the case for qualification debts, the debt is formally raised in Centrelink's Debt Management Information System (DMIS) and referred to Centrelink's debt recovery network, for recovery action. Some debts are recovered immediately by automatically offsetting available components of a customer's supplement payment and/or tax refund against the debt. Where this cannot occur, staff in Centrelink's debt recovery network seek to contact the customer and negotiate a repayment arrangement. Under certain conditions, debts may also be waived, temporarily written off or permanently written off.

Audit approach

8. The audit examined the effectiveness and efficiency of the FAO's management of overpayments, within the FTB Programme. In particular, the ANAO considered the FAO's activities in relation to FTB debt prevention, identification, raising and recovery. The audit also compared the FAO's policy documentation and guidance material for staff, against relevant sections of Family Assistance legislation.

9. Centrelink manages the majority of activity in relation to FTB debts, and has consolidated operations within six debt management centres. During this audit, the ANAO observed various debt management activities at Centrelink's Melbourne, Perth, Darwin, Brisbane, Sydney and Coffs Harbour debt management centres.

10. The ANAO also interviewed key FAO staff members at a number of Centrelink Customer Service Centres and Call Centres, across Australia. In addition, the ANAO discussed aspects of FTB Programme administration with programme specialists and information system staff in Centrelink, FaCSIA, Medicare Australia and ATO national offices. These are located in Canberra.

11. During the audit, the ANAO reviewed various departmental files, reports, statistical collections and data sets. The ANAO also examined a range of FTB claim forms, information booklets and agency Internet sites. Fieldwork for the audit was primarily undertaken during April 2006 to June 2006.

Overall audit conclusion

12. Through a series of debt prevention strategies and measures, the FAO has significantly reduced the incidence and extent of customer debt arising from the reconciliation of FTB entitlements. In the first two years of the FTB

Programme, approximately 33 per cent of the FTB population incurred a reconciliation debt, whereas in the most recent two years,[6] the incidence of reconciliation debt has fallen to under 10 per cent of customers.

13. In contrast with the range of activities targeting reconciliation debt, the ANAO noted that less attention had been paid to reducing the incidence of non-lodger debt—that is, debt arising from the failure to lodge a tax return (where required) in support of an FTB claim. The amount of non-lodger debt incurred each year has remained relatively stable. However, due to the reduced incidence of reconciliation debt, non-lodger debt now accounts for a greater proportion of the outstanding FTB debt stock than reconciliation debt.

14. The FAO has improved the rate at which FTB reconciliation debts are recovered from customers. Increased standard withholding rates, together with a FAO large debt initiative, announced in the 2005–06 Federal Budget, have contributed to this improvement. The ANAO noted that the recovery rate for non-lodger debt is significantly lower than that for reconciliation debt and that action regarding non-lodger debt was not included in the FAO large debt initiative.

Key Findings

Preventing FTB debt (Chapter 2)

15. The FAO provides comprehensive advice to customers about eligibility requirements, payment rates, payment options, and strategies to avoid a reconciliation debt. The risks associated with incorrectly estimating family income are clearly presented in a series of information booklets. Together with information and income estimation tools on the FAO and ATO websites, the published material assists customers to accurately estimate their annual income and aims to reduce the risk of incurring a reconciliation debt. In addition, the FAO and Centrelink websites provide customers with the facility to update their income estimate online, throughout the financial year.

16. However, the ANAO found that neither the information booklets nor the websites emphasised the importance of FTB customers' obligation to lodge an income tax return in support of their FTB claim.[7] Where the materials refer

[6] Latest figures available at the time of the audit were for the 2003–04 and 2004–05 FTB entitlement years.

[7] Some customers are not obliged to lodge a tax return each year, however, these customers are required to inform the FAO of their situation.

to tax returns it is often to help explain their role in the reconciliation process, rather than to present a strong message to customers that lodging a tax return is a basic requirement to demonstrate eligibility for FTB.

17. The FAO lump sum claim form collects extensive information about customers' circumstances and includes a checklist of documentary evidence required to support a claim. However, the new four-page FAO fortnightly instalment claim form, replacing a 26-page form at the beginning of 2006, collects significantly less information. In fact, the new form does not collect sufficient information to process a new FTB claim, although it can be used to add a newborn child to an existing customer record. As a result, FAO staff are often required to contact the prospective customer and gather additional information in order to process the claim. At the time of conducting the audit, the extent of any additional administrative workload, associated with the introduction of the new form, was not clear. The ANAO noted that the ATO claim forms collect comprehensive information from customers and highlight the need to submit a tax return in support of FTB claims.

18. The ANAO found that, over the course of the FTB Programme, the FAO has developed and implemented a range of strategies and measures to successfully reduce the incidence of reconciliation debt for FTB customers. The Assistance to Families at Risk of Overpayment (AFRO) initiative directly targets customers at higher risk of incurring reconciliation debts and provides advice and assistance to those customers. The ANAO also noted that Centrelink's policy of inviting customers, at every contact with the agency, to update their income estimate, also helps to reduce the likelihood of customers incurring a debt.

19. A number of regional debt prevention projects seek to improve communication between the FAO and selected target groups—such as refugees and migrants, Indigenous customers and customers with volatile and/or low incomes.

20. Over the course of the FTB Programme the FAO has implemented a series of policy and legislative measures to address the level of reconciliation and qualification debt in the FTB Programme. Some changes, such as the More Choice for Families initiative and Negotiated Payment Rate measure, afford FTB customers greater choice in receiving FTB payments. Other measures, such as the supplement payments, quarantining FTB Part B,[8] automatic income uplift and maintenance income credit,[9] represent enhancements to the FTB Programme, specifically designed to reduce the likelihood of FTB customers incurring a reconciliation debt.

21. In contrast to the efforts directed toward reducing the incidence and extent of reconciliation debt, the ANAO found that the FAO had not addressed the matter of non-lodger debt in a focussed or targeted manner.

Debt Raising and Recovery (Chapter 3)

22. Centrelink's national training package for debt recovery staff and its provision of uniform resource material is designed to achieve a consistent approach to debt recovery within the network. In addition, the ANAO noted that FaCSIA maintained a valuable source of policy advice and legislative interpretation in the *Family Assistance Guide*, available through FaCSIA's website. Collectively, the *Family Assistance Guide* and Centrelink's e-Reference library provide debt recovery staff with a comprehensive suite of policy guidance on debt raising and recovery activities.

23. The ANAO examined Centrelink's debt raising and recovery procedures and observed these in operation in Centrelink's six debt recovery centres and a selection of Customer Service Centres and Call Centres across Australia. The ANAO concluded that Centrelink's debt raising and recovery procedures are consistent with the Family Assistance legislation and noted that these procedures are designed to ensure consistent treatment of FTB debtors across Centrelink's network.

24. The FAO policy in relation to raising FTB debts has regard to the difficulties associated with changing family circumstances. For example, the process of raising reconciliation or non-lodger debt, in cases where an FTB customer and their partner separate, can be complex. The timing of a couple's separation—either during the financial year in which FTB is paid, or after the end of the financial year—impacts on the debt raising process. The ANAO noted that the legislation limits the effect of an ex-partner's income on

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8 Normally, FTB Part B entitlements are calculated for an entire financial year—that is, the income limit for the lower earner applies to a full 12 month period. However, this measure allows FTB Part B payments to be quarantined for part of a financial year. See discussion in Chapter 2.

9 The Maintenance Income Free Area is the amount of maintenance a customer can receive before the customer's FTB A payments are reduced. Previously this provision was only available for the current financial year. The new measure enables customers to use their Maintenance Income Free Areas from previous years to offset late payments of maintenance income.

reconciliation to either a top-up or nil adjustment. The FAO policy also attempts to minimise the negative impact of an ex-partner failing to lodge a tax return for an income year prior to the couple's separation.

25. Consistent with legislative provisions and the FAO policy framework, Centrelink's debt recovery network employs a variety of means to recover FTB debts. The *Family Assistance Guide* supports debt recovery staff in choosing an appropriate debt recovery mechanism and helps to assure consistent treatment of FTB debtors. Some debt recovery mechanisms are automated, while others require a manual intervention on the part of debt recovery staff. FTB debts are recovered through:

- deductions from the debtor's (or another consenting person's) ongoing FTB fortnightly instalments;
- setting off debt against an income tax refund of the debtor or another consenting person;
- setting off debt against arrears of Family Assistance payments owed to a debtor or another consenting person;
- entering into an arrangement with the debtor to repay the debt by instalments (know as a cash arrangement);
- garnishee notice issued to an employer, bank or solicitor; and
- legal proceedings.

26. The ANAO noted that the FTB Programme recognises many Family Assistance debts arise because of a customer's inability to accurately estimate their income, rather than as a direct result of fraud or misinformation. Therefore, under the FAO's policy, FTB debts are treated more generously than income support debts.

27. The Family Assistance legislation provides for the Secretary of the Department of Families, Community Services and Indigenous Affairs to waive a class of debts specified by Ministerial determination. This provision was invoked through the Family Assistance Estimate Tolerance (Transition) Determination 2001, of 3 October 2001. As a result, the first $1 000 of certain FTB and Child Care Benefit debts for 2000–01 were waived. This measure saw $359 million of FTB debt waived for 591 941 FTB customers.

28. The Family Assistance legislation incorporates other provisions for waiving and writing off FTB debts. For example, where a customer's net reconciliation debt (after the application of supplement payments and tax refund offsetting) is less than $50, the debt is deemed to be not cost effective to recover, and is automatically waived. Debts arising from administrative error are also able to be waived in certain circumstances.[10]

Managing the stock of FTB debt (Chapter 4)

29. The stock of FTB debt represents a dynamic equilibrium. Amounts are constantly being added to the stock of debt—as customer debt is identified and raised—and other amounts being subtracted from it—as debts are recovered from customers or are otherwise removed from the debt stock.[11] Over the course of the FTB Programme to November 2005, approximately $5.63 billion of FTB debt has been raised or added to the debt stock, while approximately $4.82 billion has been recovered, waived or otherwise removed from the debt stock. At March 2006, the total amount of outstanding FTB debt was $765.7 million.[12]

30. The ANAO found that, up until December 2005, reconciliation debt was the major contributor to the stock of FTB debt, and at March 2006 accounted for $340.4 million or 44.5 per cent of the FTB debt stock. The ANAO also found that, at December 2005, non-lodger debt overtook reconciliation debt as the major contributor to the stock. At March 2006, non-lodger debt accounted for $377.3 million, or 49.3 per cent of outstanding FTB debt.[13]

31. In terms of the amount of debt added each year, the value of outstanding reconciliation debt has steadily decreased over the five entitlement years 2000–01 through 2004–05. However, the value of outstanding non-lodger debt added each year was found to be relatively stable over the four entitlement years 2000–01 to 2003–04. The outstanding stock of FTB debt

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[10] If the debt arises from administrative error, the person received the payment in good faith and recovery of the debt would cause the debtor severe financial hardship; OR the payment was received in good faith, AND the debt has been raised during whichever of the periods below ends last:

- after the end of the next income year following the income year in which the eligibility period or event which gave rise to the payment of family assistance, OR
- more than 13 weeks from the day the family assistance payment was made that gave rise to the debt.

[11] Debts may be waived, temporarily written off, permanently written off or reduced.

[12] The latest figures available at the time the ANAO conducted its analyses for this audit, where those up to March 2006. In November 2006, FaCSIA advised the ANAO that the total amount of outstanding FTB debt, at June 2006, was $718.1 million.

[13] In November 2006, FaCSIA advised the ANAO that the relevant figures, at June 2006, were:

Reconciliation debt - $331 million or 46.2 per cent of the FTB debt stock;

Non-lodger debt - $336 million or 46.8 per cent of the FTB debt stock.

has oscillated within the range of approximately $700 million to $900 million, over the period March 2004 to March 2006.

32. The ANAO found that the incidence of reconciliation debt had reduced from approximately 33 per cent of the FTB population during the first two years of the programme to under 10 per cent of the FTB population in the most recent two years. The ANAO also found that the introduction of the FTB Part A supplement in 2003–04 and the FTB Part B supplement in 2004–05 significantly reduced the number of FTB customers who incurred a reconciliation debt. Without the Part A supplement, 27 per cent of customers would have incurred a reconciliation debt in 2003–04. However, with the supplement only 10 per cent actually incurred a reconciliation debt for that FTB year. In 2004–05, 15 per cent would have incurred a reconciliation debt but for the Part A and B supplements—only five per cent actually incurred a reconciliation debt for that year.

33. Despite the significant reduction achieved in respect of reconciliation debt, the management of non-lodger debt represents an ongoing challenge for the FAO. The ANAO considers that unnecessary administrative work is attached to raising non-lodger debt, which eventually has to be reversed when a customer lodges a tax return. Within the 12 month period October 2004 to September 2005, the FAO raised $484 million of new non-lodger debt. However, during the same period, FAO reversed some $380 million, or 75 per cent of the amount raised in that period.

34. The ANAO noted a particular challenge for the FAO was that of managing customers with multiple non-lodger debts. The ANAO found that, at June 2006, over 26 000 FTB customers had incurred non-lodger debts for two or more years. In addition, almost 5 700 customers had never submitted a tax return for any of the four years in which they received FTB. Under the current FAO policy, customers continue to receive fortnightly FTB payments even though they have not lodged tax returns for a number of years and, as a result, incurred non-lodger debts for some of those years. The ANAO found that these customers may accumulate FTB debt at a rapid rate—far faster than the majority of customers incurring reconciliation debts.[14]

[14] This is because, if a customer fails to lodge a tax return or inform the FAO that they are not required to lodge a tax return, and is identified by the FAO as a non-lodger, the entire amount of FTB payments received during the relevant FTB year is raised as a debt.

35. Although standard withholding rates for customers repaying non-lodger debts are higher than those for reconciliation debts,[15] the ANAO found that the average time taken to repay non-lodger debts is significantly greater than that taken to repay reconciliation debts. For example, the ANAO found that at least 80 per cent of recoverable reconciliation debt was recovered within three years, while less than 20 per cent of recoverable non-lodger debt was recovered within three years.

36. The FAO large debt initiative, which commenced in January 2006, was targeted at customers repaying FTB reconciliation debts that were greater than $3 000 in value and more than 12 months old. The ANAO found that the initiative had been successful in almost doubling the average fortnightly debt recovery rate for the 13 900 customers involved,[16] and had reduced outstanding FTB debt by over $9 million in the six months between January and June 2006. The ANAO noted that the FAO large debt initiative did not include customers with non-lodger debts.

37. While a number of other measures aimed at improving debt recovery were also introduced in the 2005–06 Federal Budget, no definitive information on the success of these measures was available at the time of conducting the audit. The ANAO noted that the measures included an increase in the standard withholding rates and the ability to offset a customer's top-up payment and/or tax refunds against FTB debts incurred in previous years. Based on the ANAO's examination of the effect of offsetting available supplement payments (following reconciliation) against debts incurred in previous years, the ANAO considers that these new measures will have a positive effect on reducing the FTB debt stock.

Recommendations

38. The ANAO made two recommendations in relation to the FAO's management of FTB overpayments. Firstly, the ANAO recommended that the FAO evaluate the introduction of a revised FTB claim form, for its impact on administrative workloads. Secondly, the ANAO recommended that, building on the success of measures employed to reduce the incidence of reconciliation debt, the FAO develop measures to address the prevention of non-lodger debt.

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[15] Standard withholding rates for non-lodgers are as follows. For customers on the base rate of FTB Part A, 95 per cent of fortnightly entitlement, and for customers above the base rate, 25 per cent of fortnightly entitlement. Standard withholding rates for reconciliation debt are: $30 per fortnight for debts under $750 and $60 per fortnight for debts greater than $750.

[16] The initiative had a target of 13 900 customer contacts within the first six months.

Agency responses

Australian Taxation Office

39. The Tax Office has no issue with the audit findings and supports the two consequential recommendations. It also notes the importance of developing a deeper understanding of the circumstances surrounding non-lodger debt so as to provide a reliable platform from which to develop administrative measures targeted at reducing the incidence of this debt, thereby ensuring any awareness strategies and lodgement enforcement activities are appropriately scoped.

Centrelink

40. Centrelink accepts the findings and recommendations of this audit. Centrelink would also like to thank the Australian National Audit Office for the way in which this audit was conducted. Centrelink appreciates the auditor's efforts and willingness to foster a positive working relationship with its officers. This audit will greatly assist Centrelink to focus its attention and work with its Family Assistance Office partners to develop measures to address the key findings and recommendations.

Department of Human Services

41. Noting that one of the key factors driving the creation of the Department of Human Services was the need to improve customer service and both of ANAO's recommendations provide opportunities to do this, the Department agrees to both of the recommendations. Initiatives recently announced by the Australian Government means that the Child Support Agency will be undertaking compliance activity to reduce the numbers of parents not lodging their tax returns. This then means flow-on benefits to the administration of the Family Tax Benefit Scheme.

Department of Families, Community Services and Indigenous Affairs

42. FaCSIA agrees with both recommendations of the audit report, and with the ANAO's conclusion that a range of strategies and measures introduced over the life of the programme are successfully reducing the level of reconciliation debt for FTB customers. There is also evidence that these strategies and measures are helping to contain non-lodger debt. The level of non-lodger debt raised in November 2005 was around 29 per cent lower than that raised in November 2004. FaCSIA believes that the stock of FTB debt is currently in decline. The stock of FTB debt at the end of September 2006 was $640 million. This is the lowest level since the end of 2003 and less than 1 per cent of total FTB outlays since July 2000.

Medicare Australia

43. Medicare Australia supports the findings of the ANAO report. Medicare Australia is nearing the completion of an ambitious expansion of our family assistance services. All Medicare offices will provide full family assistance services from 6 November 2006. Over the next twelve months we will be closely monitoring our performance and the recommendations of the ANAO report provides useful further guidance about the role we can play to assist customers to avoid FTB debt. Medicare Australia will continue to work closely with Centrelink to ensure consistent advice is given to customers and to implement findings arising from the evaluation to be undertaken in response to recommendation No. 1 of the ANAO report.

Recommendations

Recommendation No.1

Para 2.32

The ANAO recommends that the FAO evaluates the introduction of the new FTB claim form (FAO04), for its impact on administrative workload and consistency of advice to new FTB customers.

Agency responses:

ATO: Supported.

Centrelink: Agreed.

DHS: Agreed.

FaCSIA: Agreed.

Medicare Australia: Agreed.

Recommendation No.2

Para 4.67

The ANAO recommends that, building on the success of the strategies used to reduce reconciliation debt, the FAO develops and implements a customer awareness raising strategy and/or administrative measures, specifically targeted at reducing the incidence of non-lodger debt.

Agency responses:

ATO: Supported.

Centrelink: Agreed.

DHS: Agreed.

FaCSIA: Agreed.

Medicare Australia: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter provides background information about the Family Tax Benefit Programme and the Family Assistance Office. It also introduces the concept of payment outcomes, describes how a customer may incur a Family Tax Benefit debt and explains the audit approach.

The Family Tax Benefit Programme

1.1 The Family Tax Benefit (FTB) Programme was introduced on 1 July 2000, as part of a broader set of reforms within Australia's taxation system, including the introduction of a Goods and Services Tax. The FTB Programme is intended to help all eligible families with the cost of raising children and, in addition, to provide extra assistance to families with one main income.[17] The following legislation defines and underpins the operation of the FTB Programme:

- *A New Tax System (Family Assistance) Act 1999*;
- *A New Tax System (Family Assistance) (Administration) Act 1999*;
- *A New Tax System (Family Assistance) (Consequential and Related Measures) Act (No. 1) 1999*; and
- *A New Tax System (Family Assistance) (Consequential and Related Measures) Act (No. 2) 1999*.

1.2 The FTB Programme effectively replaced nine[18] separate types of assistance to families, previously delivered through both the taxation and social security systems. FTB consists of two parts:

- FTB Part A (replaced Family Allowance, Family Tax Payment (Part A) and Family Tax Assistance (Part A)); and
- FTB Part B (replaced Basic Parenting Payment, Guardian Allowance, Family Tax Payment (Part B), Family Tax Assistance (Part B), the 'with children' rate of the Dependent Spouse Rebate and the Sole Parent Rebate.)

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[17] *FAO Information Booklet - About Your Claim for Family Assistance.*

[18] Budget Paper 2, 1999–2000 p. 86. In all, 12 payment types were incorporated into three new payment types – FTB Parts A and B, and Child Care Benefit.

1.3 FTB payments are means-tested, with the rate of payment affected by the family's actual income—including maintenance income[19]—and the number, age and income of children for whom FTB is claimed.[20] FTB Part A is the most common payment and is paid per child. It includes a supplement, also paid per child, after the end of the financial year. FTB Part B provides extra assistance to single parent families and two parent families with one main income. It also includes a supplement, paid per family, after the end of the financial year. In 2004–05, the FTB Programme delivered a total of $13.9 billion to approximately 2.2 million FTB customers.[21]

The Family Assistance Office

1.4 The Family Assistance Office (FAO) was established as a one-stop shop for customers to access the full range of family assistance services, including FTB Part A and FTB Part B, Child Care Benefit, Maternity Payment and Maternity Immunisation Allowance.

1.5 The FAO is a 'virtual' agency resulting from a joint venture between the Department of Families, Community Services and Indigenous Affairs (FaCSIA), Centrelink, the Australian Taxation Office (ATO), and Medicare Australia.[22] FAO offices have been established in over 550 Centrelink Customer Service Centres, Medicare Australia Offices and ATO shopfronts across Australia. Until recently, Medicare Australia Offices functioned as a 'post office' for FAO claims, which were forwarded to Centrelink for processing. Currently, Medicare Australia is taking on a more active role[23] and the FAO expects that, by December 2006, all Medicare Australia Offices will offer the full range of FAO services.

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19 The value of child support received from a non-custodial parent.

20 Eligibility for FTB also involves the customer having care of a dependent child and meeting the FTB Australian residence requirements. Eligibility requirements are detailed in Division 1 of Part 3 of the *A New Tax System (Family Assistance) Act 1999.*

21 This estimate of 2.2 million customers includes customers who, at any time in the 2004–05 financial year received an FTB payment. Not all customers remain eligible for the entire year. Not all customers proceed to reconciliation. FaCSIA estimates the number of 'ongoing' FTB customers to be approximately 2.0 million.

22 In October 2004, Centrelink and Medicare Australia became agencies of the newly created Department of Human Services.

23 At March 2006, full FAO services had been rolled out to approximately 100 of the 226 Medicare Australia offices across Australia.

Governance of the Family Assistance Office

1.6 Ministerial responsibility for the FAO rests with the Minister for Families, Community Services and Indigenous Affairs, while the Secretary of FaCSIA is accountable for the overall management of the FAO and the purchase of FAO services from Centrelink, the ATO and Medicare Australia.

1.7 The FAO governance model defines, in broad terms, the relationship between FaCSIA and the three service delivery agencies, and details a range of governance structures established to facilitate the delivery of FAO services. The working relationship between FaCSIA[24] and each delivery agency is set out formally in separate bilateral agreements.

1.8 Under the Service Arrangement between FaCS and the then Health Insurance Commission (Medicare Australia's predecessor organisation), FaCSIA paid Medicare Australia $8.6 million to provide FAO services in 2004–05. Similarly, under the FaCS—ATO Business Agreement, FaCSIA paid $9.0 million to the ATO for the provision of FAO services in 2004–05. FaCSIA's annual report for 2004–05 indicates that the department paid Centrelink a total of $425.5 million for the provision of Family Assistance services, the majority of which related to the FTB Programme.[25]

1.9 The peak coordination body for the Family Assistance Office is the FAO Strategic Management Committee (SMC).[26] The FAO governance model describes the role of this committee as:

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24 Until 24 January 2006, this department was known as the Department of Family and Community Services (FaCS). Following changes announced by the Prime Minister on 24 January 2006, the Office of Indigenous Policy Coordination became part of the new Families, Community Services and Indigenous Affairs portfolio. This report refers to the department by its new name (FaCSIA), except where quoting documents produced by the former Department of Family and Community Services.

25 Other Family Assistance programmes include Maternity Payment and Maternity Immunisation Allowance. FaCSIA and Centrelink advised the ANAO that they did not sub-divide the funding provided by FaCSIA to Centrelink for the provision of FAO services to the individual programme level.

26 At April 2006, this committee consisted of:

FaCSIA	Group Manager, Families (Chair)
	Branch Manager, Family Payments and Policy
	Branch Manager, Child Care
Centrelink	Deputy CEO, Stakeholder Relationships
	General Manager, Families, Seniors, Rural and Community Division
	National Manager, Families & Child Care Services Branch
Medicare Australia	Deputy Managing Director
	Manager, Associate Government Programs
ATO	Assistant Commissioner, Personal Tax Design
Secretariat support -	FaCSIA

The role of this committee is to give strategic direction on issues related to the effective operation of the FAO, and provide a framework for the consideration of issues relevant to the future of the FAO.[27]

1.10 The Strategic Management Committee is also required to:

- accept governance responsibility for the effectiveness of assurance and risk management frameworks for FAO operations;
- share information on developments within the FAO partner agencies;
- identify opportunities for outcomes to benefit FAO customers;
- develop strategic mechanisms for exchanging information and advising the senior leadership of the FAO partner agencies and government; and
- resolve disputes between the FAO partners.[28]

1.11 Sitting under the FAO Strategic Management Committee are the FAO Operations Group (FOG) and the FAO Operational Processes Working Group (FOP). The terms of reference for each of these groups are included in the FAO governance model. Essentially, the FOG is intended to support the SMC by providing a forum for effective cross-agency collaboration on FAO operations—ensuring effective operation of business processes and systems; developing risk management strategies and management information reporting arrangements; providing early warning of operational problems or inconsistent customer outcomes; and resolving disputes between partner agencies relating to operational service delivery issues.

1.12 The FOP's role is to focus on detailed operational process issues that have the potential to impact on customer outcomes or the seamless delivery of FAO services. The FOP also oversees the development and deployment of communications products into the FAO network, with responsibility for ensuring these adhere to the concept of a seamless FAO service.[29]

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[27] Source: FAO Governance Model – endorsed by the FAO Strategic Management Committee, 22 August 2003.

[28] ibid.

[29] Other working groups or sub-committees have been established for specific FAO projects or functions. These include the Centrelink-FaCSIA Quarterly Business Discussion Group, the Families and Child Care Inter-departmental Implementation Group, the Extended Family Services in Medicare Group and the Child Care Tax Rebate Communications Committee.

Features of the FTB Programme

FTB payment options

1.13 FTB customers must lodge a claim within two years of the end of the financial year for which they are claiming. Therefore, a customer who wishes to claim FTB for 2004–05 has until 30 June 2007 to lodge his or her FTB claim form. Customers can elect to have their FTB entitlements paid in a number of ways:

- **a single, annual payment**—accessed by lodging a claim with the FAO, once the family's actual income for the financial year is known;
- **a single, annual payment**—accessed by lodging an FTB tax claim with the ATO, at the same time that the customer lodges their tax return with the ATO;[30]
- **a fortnightly payment** claimed through the FAO—with the payment based on an estimate of the annual family income. Customers may also choose to receive the base rate of FTB fortnightly, and the remainder of their entitlement in a lump sum at the end of the financial year, once the actual family income is known; and
- **a fortnightly reduction of Pay-As-You-Go** (PAYG) **tax** (also called withholding tax), claimed through the ATO.

1.14 The legislation underpinning the FTB Programme is closely linked to Australia's taxation system. FTB eligibility and payment rates are based on a family's adjusted taxable income for a financial year, as advised by the ATO through the lodgement and assessment of tax returns.[31]

1.15 As a result, a family's actual FTB entitlement can only be determined at the end of the financial year, once the family's tax returns are lodged and

[30] An FTB tax claim form may be lodged with the ATO at the same time as, or after the customer lodges a tax return. The FTB tax claim may not be lodged with the ATO before the customer lodges a tax return. If the customer's partner does not lodge a tax return at the same time as the customer, and the partner's actual taxable income is unknown, the customer's entitlement will be calculated using an estimate of the partner's income.

[31] A family's adjusted taxable income may include elements other than the taxable income assessed by the ATO. Further detail on the components of adjusted taxable income is included in Chapter 2.

assessed by the ATO.[32] Therefore, fortnightly FTB payments are prospective payments, based on an estimate of a customer's (and partner's where applicable) adjusted taxable income for the year.[33]

The FTB customer base

1.16 Approximately 2.2 million families received some FTB payments in 2004–05. In 2004–05, Centrelink made fortnightly payments totalling $12.827 billion, and the ATO made lump sum payments totalling $1.112 billion in that year.[34]

1.17 Table 1.1 summarises FTB expenditure and customer numbers for entitlement years 2000–01 to 2004–05, using statistics available at June 2006.

Table 1.1

FTB expenditure and customer numbers

	2000–01	2001–02	2002–03	2003–04	2004–05
FaCSIA expenditure [A]	$10.076 billion	$10.928 billion	$10.474 billion	$12.870 billion	$12.827 billion
ATO expenditure [B]	-	$336 million	$412 million	$501 million	$1.112 billion
No. of customers - fortnightly payments [C]	1 960 569	2 022 071	2 012 277	2 104 205	-
No. of customers - Centrelink lump sum [C]	40 319	59 323	63 946	77 070	-
No. of customers - ATO lump sum [D]	-	80 417	83 762	99 075	117 722

Source: FaCSIA and ATO Annual Reports and Portfolio Budget Statements (PBS) for the relevant years. See notes on the following page.

[32] Or in the case of customers not required to lodge a tax return for that year, when they inform the FAO or the ATO that they are not required to lodge a return. Centrelink also advised the ANAO that under certain circumstances, some customers' entitlements may be determined, using recorded income estimates, prior to both members of a couple lodging tax returns. For example, Centrelink assumes that customers with income estimates of less than $6 001 do not need to lodge tax returns. Centrelink conducts an interim reconciliation for such customers using recorded income estimates, usually in the November following the end of the FTB entitlement year.

[33] Apart from assessed taxable income, the family's adjusted income may also include the value of any net rental property losses, reportable fringe benefits or foreign income. The factors that contribute to a family's income estimate are discussed in Chapter 2 of this report.

[34] The $1.112 billion expended by the ATO in 2004–05 related to lump sum payments for the past period claims for the 2002–03 and 2003–04 entitlement years. Claims in respect of 2004–05 may be received until 30 June 2007.

Notes:

A. FTB expenditure figures in FaCSIA's annual reports relate to fortnightly payments made by the FAO through Centrelink during the FTB entitlement year, corresponding with the department's annual report produced for that financial year. Although Medicare Australia provides FAO services, only Centrelink and the ATO make payments to customers.

B. Claims for lump sum payments through the tax system were first lodged with tax returns for the year ended 30 June 2001 and were processed by ATO during 2001–02. Therefore, the $336 million reported for 2001–02, while expended by ATO in 2001–02 relate to past period claims for the 2000–01 FTB entitlement year.

C. Figures sourced from FaCSIA's annual reports.

D. Figures sourced from ATO's annual reports.

The total number of customers cannot be calculated by simply adding the three figures above, as some customers access FTB via more than one channel. See Appendix 1 for a more detailed breakdown.

1.18 FaCSIA provided the ANAO with a more detailed breakdown of the number of customers accessing an FTB benefit. The full set of statistics, current as at 30 September 2005, is reproduced at Appendix 1. An extract of information from Appendix 1 appears below, showing the number of customers receiving FTB Part A only, FTB Part B only and both FTB Part A and FTB Part B payments.

Table 1.2

FTB customer numbers (reconciled customers as at 30 September 2005)

Entitlement year	FTB A only	FTB B only	FTB A and FTB B	Total
2000–01	631 719	48 002	1 315 868	1 995 589
2001–02	637 172	47 721	1 361 543	2 046 436
2002–03	634 999	50 843	1 372 527	2 058 369
2003–04	631 695	43 673	1 344 778	2 020 146

Source: FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Section 2.2 - All Customers – Time series FTB Payments.

Note: The numbers of FTB customers reported above, both in total and in the various categories of customers, are lower than the equivalent statistics reported in FaCSIA's relevant annual report. This is because the numbers above relate to reconciled customers. The numbers in annual reports refer to the number of people who, at any time during the entitlement year, receive FTB payments. Not all of those people proceeded to reconciliation, nor were they all paid for the entire year.

How FTB debts arise

1.19 Because of the nature of the FTB Programme—with the rates of payment based on the adjusted taxable income of the family for the financial year during which FTB payments are received—every year some customers are overpaid, some customers are underpaid and some customers are paid the correct amount. For other customers, their family's circumstances may change so that they are no longer eligible to receive FTB payments.

1.20 Essentially, FAO customers may incur an FTB debt in one of four ways:

- **Qualification debt**—where the family's status or circumstances change so that the family is no longer eligible for FTB or no longer eligible for the rate of FTB paid;[35]
- **Reconciliation debt**—where a family has received a certain rate of FTB payments based on an income estimate, and it is determined on reconciliation, that the family's annual entitlement is less than the payments received during the course of the entitlement year;
- **Non-lodger debt**—where a customer and/or their partner (if applicable) have not lodged a tax return within the prescribed time; and
- Debt caused by **administrative processes**—where a customer may have provided all necessary information to the FAO regarding their circumstances and income, yet an IT systems error, or human error on the part of a FAO staff member, causes the customer to receive more than they were entitled to, and subsequently, to incur a debt.

Qualification debt

1.21 In order to qualify for FTB Part A, the customer must:

- have a dependent child aged under 21, or a qualifying dependent full-time student aged 21 to 24. Certain criteria apply to the definition of a dependent child;[36]
- have income under a certain amount (the amount varies depending on the number and age of children. For example, at 1 July 2006, the income limit for a family with one child under 17 was $94 718, while the income limit for a family with three children aged 0-17 and three children aged 18-24 was $150 210); and
- meet certain residential requirements.[37] The children must also meet these requirements or must be living with the claimant.[38]

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[35] Qualification debt is also known as circumstance debt, within the FAO debt recovery network.

[36] A child or student cannot be a dependent if they are receiving a pension, Labour Market related payment or benefit, such as Youth Allowance. Nor can a child be a dependent if they are aged 5 to 15, not studying full-time and their annual income exceeds $11 548, or aged 16 to 24 and their annual income exceeds $11 548 or they are receiving a Prescribed Education Scheme payment such as ABSTUDY.

[37] The customer must:

- be an Australian citizen or;

1.22 The base rate of FTB Part A may continue to be paid for up to three years of a temporary absence from Australia. More than the base rate of FTB Part A can generally only be paid for up to 13 weeks of a temporary absence.[39] However, conditions apply and the customer must notify the FAO.

1.23 To be eligible for FTB Part B the family must have a dependent child aged under 16 or a qualifying dependent full-time student up to the age of 18 who does not receive Youth Allowance or a similar payment. Single parent families automatically receive the maximum amount of FTB Part B. For two parent families, the income of the main earner is not taken into account. The lower earner can earn up to $4 234 each year before it affects their (maximum) FTB Part B payments. FTB Part B payments cease when:

- the youngest child is aged under 5 years and the lower earner has an income of $21 572 per annum, or greater; or
- the youngest child is aged between 5 and 18 years and the lower earner has an income of $16 790 per annum, or greater.[40]

1.24 If a family's circumstances change, such that one or more of the qualification requirements is not met, and the customer does not inform the FAO, the customer may be paid benefits to which he or she is not entitled. Once the FAO becomes aware of the change in circumstances, it can calculate the customer's entitlement, if any, and reconcile this with payments actually received.[41] Any overpayment constitutes a debt to the Commonwealth and must be repaid by the customer. FaCSIA's *Family Assistance Guide* provides the following advice on recoverable debts.

- hold a permanent visa or;
- be a New Zealand citizen who arrived on a New Zealand passport or;
- hold a temporary visa of the subclass 070, 309, 310, 447, 451, 695, 785, 786, 787, 820, 826 or hold a Criminal Justice Stay Visa issued specifically for the purpose of assisting in the administration of criminal justice in relation to the offence of people trafficking, sexual servitude or deceptive recruiting.

38 Source: Centrelink, *A Guide to Australian Government Payments 1 July–19 September 2006*, Centrelink, Canberra, 2006, pp. 2-3.

39 FTB Part B can generally only be paid for up to 13 weeks of a temporary absence from Australia.

40 Centrelink advised ANAO that the legislation for FTB Part B quarantining was introduced by the *Family and Community Services Legislation Amendment (Family Assistance and Related Measures) Bill 2005* and is now part of the *A New Tax System (Family Assistance) Act 1999.* Essentially, any income earned during the FTB Part B quarantining period is not taken into account in determining the customer's FTB Part B entitlement. The ATO advised the ANAO that special provisions may also apply in relation to customers who qualify for the 'Welfare to Work' measures. For further detail see the *Family and Community Services Legislation Amendment (Welfare to Work) Act 2005.*

41 Including any FTB advance payments received by the customer.

Table 1.3

Type of FTB debt – full or part amount

If the debt occurred because the person was…	Then the amount of the recoverable debt is the…
NOT entitled to payment for a particular period or event,	full amount of the payment paid for that period or event. Reference: *A New Tax System (Family Assistance) (Administration) Act 1999, section 71(1)*
paid an amount that was greater than their correct entitlement,	difference between their correct entitlement and the amount they were paid. Reference: *A New Tax System (Family Assistance) (Administration) Act 1999, section 71(2)*

Source: FaCSIA, Family Assistance Guide, section 7.1.2 – Overpayments to individuals and ACOs [Approved Care Organisation], available from <http://www.facs.gov.au/guides_acts/fag/faguide-7/faguide-7.1/faguide-7.1.2.html> [accessed 17 August 2006].

1.25 Common causes of qualification debt observed during the conduct of this audit include:

- residency status changes during an entitlement year;
- one or more children leaving the care of the FTB customer during the year (often to enter the care of another parent or a grandparent);
- child income threshold exceeded; and
- failure to take appropriate action to seek child maintenance, through the Child Support Agency.[42]

1.26 In some cases, the circumstances that give rise to a qualification debt are not identified until reconciliation. In many of these cases, the reconciliation process effectively replaces the process of raising a qualification debt, and the debt is classed as a reconciliation debt.

Reconciliation debt

1.27 As noted earlier, fortnightly FTB payments are prospective payments, the rate of which is based on an estimate of a customer's (and partner's where

[42] Reasonable maintenance action is relevant for parents caring for children from a previous relationship. If the parent cares for the child for more than 30 per cent of the time, the parent must apply to the Child Support Agency for a child support assessment. If the customer fails to do this, they are ineligible to receive FTB Part A above the base rate.

applicable) adjusted taxable income for the year. Following the assessment of a customer's/partner's tax returns, Centrelink and the ATO undertake a reconciliation of the family's FTB entitlement and the actual benefits paid during the financial year. Three outcomes are possible as a result of this reconciliation process:

- **underpayment**—the customer has not received their full FTB entitlement over the financial year and a top-up payment is made to the customer;
- **correct payment**—the customer has received their correct entitlement over the course of the financial year and no adjustments are necessary; and
- **overpayment**—the customer has received more than their entitlement over the course of the financial year and, as a result, owes a debt to the Commonwealth. The amount of the debt is the difference between the payments actually received and the correct payment for the customer.

1.28 Reconciliation debt is the most common type of debt incurred by FTB customers. A frequent cause of customers incurring a reconciliation debt is underestimating the family's adjusted taxable income for the financial year in question. FTB debt can also arise when separated parents share the care of a child. For example, if the care of a child is shared on a 70 per cent—30 per cent basis,[43] yet one parent has claimed for 100 per cent of the FTB entitlement during the year, that person may incur a debt at reconciliation.

1.29 In 2000–01, the first year of the FTB programme, 670 282 or 34 per cent of the 1.96 million customers at that time who received fortnightly FTB payments incurred a debt. The total value of these debts was $584 million[44]. In July 2001, the Government announced a one-off $1 000 debt waiver for eligible customers—that is, customers who had incorrectly estimated their income or shared care arrangements and had therefore incurred a debt. As a result, 591 941 customers had a total of $359 million of debts waived. This left a net debt for 2000–01—resulting from FTB reconciliation—of $225 million.

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43 In such cases, each parent is entitled to a proportion of FTB based on the amount of time they care for the child(ren). Some special provisions apply regarding the minimum percentage of shared care required to access FTB and provisions for a parent to waive their right to their proportion of FTB. See FAO publications for further detail—especially *The what, why and how of Family Assistance*, available at FAO offices and via the Internet.

44 Department of Family and Community Services Annual Report 2001–02, Volume 2, p. 26.

1.30 Reconciliation debt is an inherent feature of the FTB Programme when customers elect to receive fortnightly payments—as is the top-up payment. Unless the family accurately estimates its adjusted taxable income, reconciliation will reveal either an overpayment or an underpayment, resulting in a consequent debt or top-up payment.

Non-lodger debt

1.31 If a family receives fortnightly FTB payments, based on an income estimate for a particular financial year, but the customer does not lodge a tax return, or does not inform the FAO or the ATO that they are not required to lodge a tax return for that financial year,[45] it is not possible to reconcile the customer's FTB entitlement.[46]

1.32 Normally, a customer and partner, if applicable, are required to lodge a tax return in the financial year immediately following the relevant income year—this is called the lodgement year.[47] A non-lodger is defined as:

> For the purposes of Family Assistance, a non-lodger is a customer or the partner of a customer, who is required to lodge an individual tax return for the relevant income year but has not done so by March of the lodgement year.[48]

1.33 The FAO applies a number of criteria to identify non-lodgers. Some FTB customers are excluded from the non-lodger process—these include customers who are deceased or those who are single and received FTB and income support continuously throughout the relevant income year.[49]

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45 Certain provisions relate to valid reasons for customers and/or partners not being required to lodge a tax return for a given year.

46 In particular circumstances, such as when a customer's only income is derived from a Centrelink income support payment, the FAO is able to reconcile the customer's FTB account without the customer lodging a tax return.

47 FaCSIA, Family Assistance Guide, section 1.1.L.30 – Lodgement year, available from <http://www.facs.gov.au/guides_acts/fag/faguide-1/faguide-1.1/faguide-1.1.l/faguide-1.1.l.30.html> [accessed 17 August 2006]. The relevant income year is defined as the financial year for which FTB has been paid. Family Assistance Guide, section 1.1.R.23, available from <http://www.facs.gov.au/guides_acts/fag/faguide-1/faguide-1.1/faguide-1.1.r/faguide-1.1.r.23.html> [accessed 17 August 2006].

48 FaCSIA, Family Assistance Guide, section 1.1.N.33 – Non-lodger, available from <http://www.facs.gov.au/guides_acts/fag/faguide-1/faguide-1.1/faguide-1.1.n/faguide-1.1.n.33.html> [accessed 17 August 2006]. Also see the entry for non-lodger, in the Glossary. The customer is technically a 'potential' non-lodger at March when the first letter is sent, and a non-lodger after June of the lodgement year.

49 For the full list of criteria see the Family Assistance Guide, section 6.4.3.20 Non-lodger Process, available from <http://www.facs.gov.au/guides_acts/fag/faguide-6/faguide-6.4/faguide-6.4.3/faguide-6.4.3.20.html> [accessed 17 August 2006].

1.34 Customers identified as potential non-lodgers are contacted by the FAO in March or April of the lodgement year and advised that:

- if they and/or their partner are required to lodge a tax return, they should do so by June 30 of the lodgement year;
- if they and/or their partner are not required to lodge a tax return they will need to tell the FAO either in writing or verbally that this is the case;
- an amount of FTB paid to them during the relevant income year may be a debt to the Commonwealth if they and/or their partner are required to lodge a return and they fail to do this by June 30 of the lodgement year; and
- no top-ups of FTB can be made if they lodge their returns after June of the second lodgement year regardless of the customer's adjusted taxable income for that year.

Note: The *Family Assistance Legislation Amendment (Extension of Time Limits) Act 2004*, which was passed on 1 April 2004, does not change the requirement for customers to lodge tax returns within 12 months. It simply means that, if they lodge between 12-24 months, they will receive a top-up [and supplement], if eligible.[50]

1.35 The FAO again reminds potential non-lodgers, before the end of the lodgement year, to either lodge their tax returns or contact the FAO if they have not already done so. If the customer and/or partner lodge the required tax returns, the account proceeds to the normal reconciliation process.

1.36 If the customer fails to respond to contact by the FAO and has not lodged a return by the end of the lodgement year, then the entire amount of FTB paid to the customer is raised as a debt. This usually occurs in the November of the second lodgement year—that is, some 18 months after the end of the year FTB payments were received.

Debt associated with administrative processes

1.37 A relatively small number of overpayments, and top-ups, result from administrative errors—variously described as system issues, transfer issues and other administrative issues.

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[50] FaCSIA, Family Assistance Guide, section 6.4.3.20 — Non-lodger process, available from <http://www.facs.gov.au/guides_acts/fag/faguide-6/faguide-6.4/faguide-6.4.3/faguide-6.4.3.20.html> [accessed 17 August 2006].

1.38 The FAO's IT system is designed to automatically make adjustments to rates of FTB payment, according to specific business rules. For example, the rate changes according to the age of children—such as the youngest child turning five. On occasions, system errors have resulted in these milestones being missed and the adjustments not occurring, resulting in underpayments or overpayments.

1.39 A known system error relating to the issue of a review letter, which occurs about six weeks before a child turns 16 years, caused a change in the rate of payment for a small number of customers for the period between the issue of the review letter and the child's 16th birthday. A similar system error relating to an 18 years review letter also occurred. These system errors have been rectified.

1.40 When a child turns 16 years of age, they may be eligible for Youth Allowance. It takes some time to process a Youth Allowance claim. However, when granted, payment is backdated to the date the claim was made. If the parents of the child were receiving FTB for the child during that period, the parents will incur an overpayment as FTB and Youth Allowance cannot be claimed simultaneously.

1.41 Similarly, recipients of income support such as Parenting Payment Partnered (PPP) are not subject to the FTB Part A income test. Movement on or off income support may result in overpayments or underpayments. For example, when a family ceases to receive PPP they are required to provide income estimates within 21 days. During the interim, the family will continue to be paid FTB—usually at the maximum rate. If the family's income estimate is above the maximum rate threshold an overpayment will occur.

1.42 These transfer issues do not represent errors *per se*, but rather the results of differing rules and conditions for different payments. As these issues are identified, FAO staff can, in some cases, offer customers a series of options—such as deferring part of their FTB entitlement—designed to reduce the likelihood of the customer incurring a debt.

Figure 1.1

Case study – re-reconciliation and the order of processing ATO records

One particular anomaly identified during this audit relates to an administrative issue that arises in the following circumstances.

A customer has been paid fortnightly FTB instalments throughout the financial year based on the family's income estimate. The income estimate for the customer's partner is under the $6 000 general tax threshold.

Both customer and partner lodge individual tax returns. The taxable income information for both parents is provided by the ATO to Centrelink on the same day. The order in which the records are read into Centrelink's IT system is important. Records are processed in the order in which they arrive through the ATO-Centrelink data link.

If the customer's record is read into the system first, because the partner's income estimate is less than $6 000, indicating that the partner is not required to lodge a tax return, Centrelink reconciles the customer's FTB entitlements using the recorded value for the partner's estimate. This may result in a top-up payment to the customer.

If the partner's record is then read into the system and it displays an income above the $6 000 estimate, the system forces a re-reconciliation for the family. In some cases, this will result in a debt—because the partner's income is significantly over the estimate.

The overall result of this process is that the family can receive a top-up payment and a debt notice issued on the same day.

If the records are read into the IT system the other way around—partner income details before the customer's income details—only one reconciliation occurs and one outcome results: either a debt; nil adjustment; or top-up.[51]

Source: The ANAO's observations and discussions with FAO debt recovery staff, ATO and Centrelink National Support Office.

1.43 The scenario described in the case study above is variously referred to in the Centrelink debt recovery network as forced reconciliation or forced re-reconciliation. Centrelink advised the ANAO that, on average, approximately 4 500 customers each year—or one per cent of all forced reconciliations—incurred FTB debts upon re-reconciliation.

1.44 The ANAO explored the cause of the issue with staff in Centrelink. Centrelink advised the ANAO that the matter was under consideration and that a workshop had been conducted in September 2006. Centrelink further advised the ANAO that:

> Centrelink expects to be able to reduce the incidence of the anomaly by introducing changes to processing that allow a short period of time for Centrelink to check whether actual income details have been transmitted by the ATO for both members of a couple. If Centrelink has received actual

51 Centrelink advised the ANAO that: 'This scenario can arise at different times depending on whether it is a lump sum claim through ATO or fortnightly payments. If lump sum, it can arise at any time. If fortnightly payments, it can only arise after November forced reconciliation when partner estimates can be used.'

income for both members of a couple it will determine FTB entitlement in one pass rather than two. Subject to proper authorisations being provided, Centrelink expects to be able to implement this processing in June 2007 and still meet policy requirements and without reducing the success rate of integrating FTB entitlement results into the tax notice of assessment.[52]

History of FTB debt

Profile of FTB payment outcomes over time

1.45 Most years, in its annual report, FaCSIA publishes statistics describing the number of FTB customers who receive overpayments, underpayments and nil adjustments. These statistics relate to the FTB entitlement year immediately preceding the year in which the annual report is published.[53]

1.46 Although these statistics are prepared 12 months after the end of the FTB entitlement year, FTB customers have up to two years after the end of the entitlement year to lodge a claim. Therefore, the statistics included in the Department's annual report are accurate at the time of publication. Yet these figures may further mature as some additional customers claim FTB in the second year and as others are reconciled when customer and partner lodge tax returns in the second lodgement year. The following figure illustrates how the statistics for reconciliation outcomes for the 2002–03 FTB year have matured over time.

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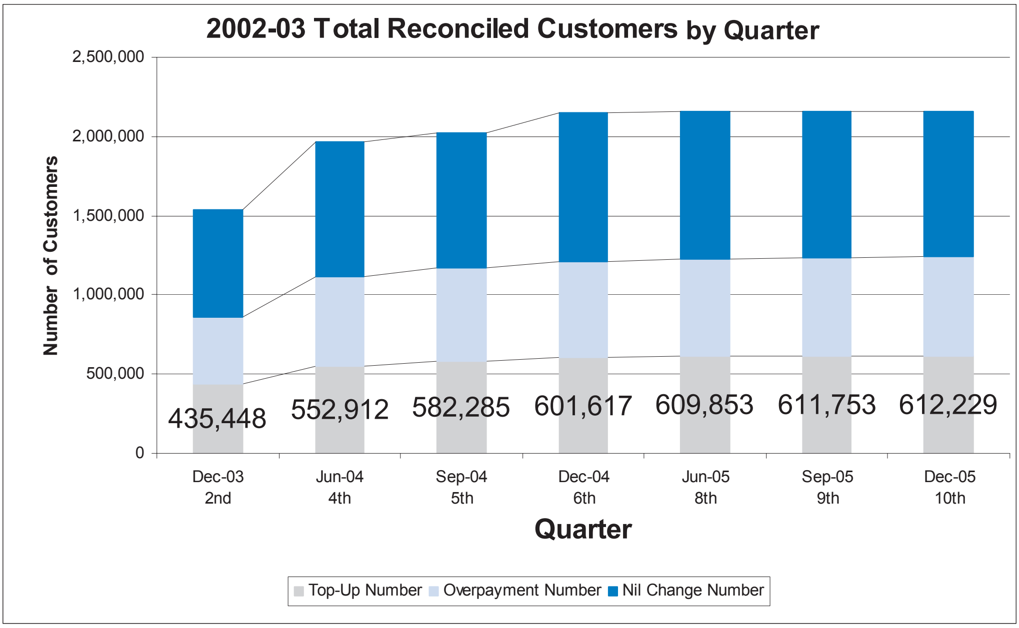
52 Advice from Centrelink's Chief Executive Officer, received on 2 November 2006.

53 The ANAO was not able to identify any such statistics for the 2001–02 FTB entitlement year in the 2002–03 FaCSIA annual report.

Figure 1.2

How FTB reconciliation figures have matured over time for the 2002–03 FTB entitlement year



Source: FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Section 5.1 Historical time series of reconciliation outcomes. Note: The report does not include statistics for the first, third and seventh quarters.

1.47 Figure 1.2 shows that, as at December 2003, some 435 448 customers had been identified as receiving a top-up payment in respect of the 2002–03 FTB entitlement year. However, by December 2004, 601 617 customers had been identified as receiving a top-up payment. A similar pattern is evident for customers identified as nil change and those incurring a debt—that is, with the passage of time and the completion of more reconciliations, more customers are identified in each category until, about 18 months to two years after the end of the entitlement year, the numbers stabilise.

1.48 FaCSIA's annual report for 2003–04 reported the number of top-ups for the 2002–03 FTB year as 552 912—using the most up to date information available at the time of publication. However, at the time of conducting this audit, a more accurate figure of 612 229 was available using FaCSIA's historical time series of reconciliation outcomes, that is the December 2005 figure reported in Figure 1.2, above.

1.49 In the analyses that follow, the ANAO uses, wherever possible, the mature data rather than those data included in past annual reports. Using the

FaCSIA statistics, compiled as at December 2005, the following table presents a summary of reconciliation outcomes for FTB customers, since the introduction of the programme.

Table 1.4

FTB reconciliation outcomes, 2000–01 to 2004–05 (as at December 2005)

	2000–01	2001–02	2002–03	2003–04	2004–05
No. of customers with no adjustment	not reported	863 400	917 023	147 500	80 419
No. of customers overpaid	670 282 before application of waiver 198 176 after waiver	707 233	628 033	219 645	119 498
Total value of overpayments	$584 million before application of waiver $225 million after waiver	$653 million	$561 million	$266 million	$130 million
Average value of overpayments	$871 before waiver $1 145 after waiver	$923	$893	$1 213	$1 085
No. customers receiving top-ups	271 409	564 130	612 229	1 790 137	1 492 020
Total value of top-ups	$279 million	$516 million	$585 million	$2.529 billion	$2.353 billion
Average value of top-ups	$1 028	$914	$956	$1 413	$1 577

Source: The ANAO – using data from various tables in FaCSIA's Program Information Report (Quarterly Report) as at December 2005. Note: Figures for 2000–01 were taken from FaCSIA's annual report for 2001–02 (Volume 2, page 26).

1.50 After the first year of the FTB Programme,[54] the table shows a decline in the number of FTB customers incurring a reconciliation debt, from year to

[54] The figures for 2000–01 are not mature figures and the implementation of a $1 000 debt waiver for debts incurred in that year make 2000–01 a unique FTB year.

year. In addition, the FTB population has been slowly increasing in size. Taking this into consideration reveals that the percentage of FTB customers incurring a reconciliation debt has decreased—from 33 per cent of the FTB population in 2001–02, to 29 per cent in 2002–03, to 10 per cent in 2003–04 and seven per cent in 2004–05.[55]

1.51 An FTB debt is perceived by customers as a negative outcome and the repayment of these debts can cause some families at least some degree of financial hardship. Reducing the frequency of customers incurring a debt has been a priority for the FAO over recent years.

Audit approach

1.52 The audit examined the effectiveness and efficiency of the FAO's management of overpayments, within the FTB Programme. In particular, the ANAO considered the FAO's activities in relation to FTB debt prevention, identification and raising and recovery.

Audit methodology and scope

1.53 The ANAO collected information on the FTB Programme and the FAO's debt management activities from various sources, including:

- public documents and websites—including annual reports, Federal Budget papers, material from the Family Assistance, Centrelink and ATO websites, FTB claim forms and FAO information brochures;
- departmental documents, such as policy and process guidelines—paper and electronic format—performance reports and records of meetings;
- interviews with key agency personnel including senior FAO managers, programme specialists, debt prevention and reconciliation officers, Customer Service Officers and reconciliation team members; and
- data and statistical reports gathered from the FaCSIA reconciliation management information database and Centrelink's Debt Management Information System.

1.54 The ANAO assessed whether the FAO's debt management policies were consistent with the relevant legislation: *A New Tax System (Family Assistance) Act 1999*, and *A New Tax System (Family Assistance) (Administration)*

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55 Using figures available at December 2005 (Source: quarterly report – percentages are taken from the most recent quarter). Figures for the most recent years are likely to be less stable than those for earlier years. See the previous discussion of how these statistics mature over time.

Act 1999. Furthermore, to determine whether the FAO's policies were employed in practice, the ANAO observed debt management activities at Centrelink's six debt management centres. These are located in Melbourne, Perth, Darwin, Brisbane, Sydney and Coffs Harbour. The ANAO interviewed debt prevention, multicultural and indigenous debt management officers about activities undertaken to help FTB customers avoid incurring a debt.

1.55 The ANAO also interviewed key FAO staff members at a number of Centrelink Customer Service Centres and Call Centres, across Australia. The topics discussed included the information provided to customers when claims are lodged and the impact of selected Budget measures on the number of customers incurring FTB overpayments. In addition, the ANAO discussed aspects of FTB Programme administration with programme specialists and information system staff in Centrelink, FaCSIA, Medicare Australia and ATO national offices. These are located in Canberra.

1.56 During the audit, the ANAO requested and was provided with a number of statistical reports, produced from FaCSIA's reconciliation database. Using this information and data reported in other management information reports, the ANAO identified trends in the management of the FTB debt stock. Fieldwork for the audit was primarily undertaken during April 2006 to June 2006.

1.57 This audit was conducted in accordance with the ANAO Auditing Standards, at a cost to the ANAO of approximately $295 000.

Previous audits and reports

1.58 Audit Report No.4 2004-2005, *Management of Customer Debt*, in Centrelink focussed on the management of debt related to income support and pension payments. The audit specifically excluded debt related to the FTB Programme. The audit found that, despite improvements in the effectiveness of Centrelink's debt management practices, customer debt continued to increase rapidly. The ANAO made nine recommendations in the report, aimed at consolidating, measuring and improving the consistency of debt management activities across Centrelink's network.

Structure of report

1.59 This chapter provides a brief introduction to the FAO and the FTB Programme. It also describes how various types of FTB debts arise, and presents a summary of the history of overpayments and debt incurred by customers, over the course of the FTB Programme.

1.60 Chapter 2 describes a range of the FAO's debt prevention initiatives, including improved communication with customers, legislative and policy changes, and direct interventions, aimed at reducing the incidence of customers incurring FTB debts.

1.61 Chapter 3 outlines Centrelink's debt identification, raising and recovery policies and practices. It also compares these with relevant legislative provisions and examines the consistency of debt management practices across Centrelink's debt management network.

1.62 Chapter 4 examines the various factors affecting the size of the outstanding FTB debt stock. In particular, the chapter examines the impact of strategies and measures employed by the FAO to reduce the incidence of overpayment and to improve FTB debt recovery rates. The chapter contrasts the different strategies and outcomes of the FAO's approach to managing reconciliation debt and non-lodger debt.

2. Preventing FTB debt

This chapter examines approaches taken by the FAO to help FTB customers reduce the risk of incurring debts. It outlines the improved information available to customers, summarises the legislative and policy changes that the FAO has introduced and discusses the major national and regional debt prevention projects implemented by the FAO and Centrelink.

2.1 The likelihood of some customers incurring a reconciliation debt was recognised soon after the introduction of the FTB Programme.[56] Debts and top-ups are inherent features of the FTB Programme, as fortnightly payments are based on an estimate of the family income. This means that unexpected pay rises, bonuses or additional income can result in a family receiving more FTB payments than it is entitled to, and subsequently, incurring a reconciliation debt. The FAO has introduced a range of measures to help families avoid or reduce the risk of incurring a debt.

2.2 Broadly, the FAO's debt prevention initiatives encompass:

- the provision of sufficient information to help customers understand the FTB Programme—the eligibility requirements and the obligations of FTB recipients;
- improved communication with customers—in particular, educating customers as to the importance of correctly estimating the family's annual income;
- identifying customers at high risk of incurring FTB debts and directly intervening to assist those customers reduce their risk; and
- legislative and policy changes, many of which provide customers with options for reducing the likelihood of incurring a debt.

2.3 Many of the FAO's debt prevention activities operate on a national basis—that is, an initiative is implemented throughout the FAO network, and it is monitored or controlled by a central support team. However, within each of the network's regions, smaller projects of local significance are undertaken.

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[56] FAO, 21 November 2000, *Draft Media Strategy – Family Tax Benefit/Child Care Benefit Reconciliation*, prepared by the National Media Unit of Centrelink on behalf of the FAO.

FAO, 12 January 2001, *Family Tax Benefit/Child Care Benefit Debt Reconciliation Project – Communication Strategy.*

ATO, 5 December 2000, *Phase 3 – Communication Strategy for Tax Agents and Families – Tax time 2000–2001*, Family Assistance Reform.

Some of these regional debt prevention activities are highlighted throughout this chapter.

Providing information to customers

2.4 The FAO provides information about the FTB Programme through two major channels—written material and the Internet. The FAO publishes a range of information booklets and fact sheets, along with the FTB claim forms and instructions on completing the claim forms. Much of this information is also included on the Family Assistance website (www.familyassist.gov.au) and the individual websites of Centrelink, the ATO and Medicare Australia. However, these websites provide additional features, such as calculators that assist customers to accurately estimate the family income and indicate possible FTB benefit rates.

Written material

2.5 One of the main sources of information available to customers is a range of information booklets. There are four main information booklets for FTB customers. Two of these booklets are produced by the FAO. They are specific to Family Assistance payments, and are called:

- *The what, why and how of Family Assistance;* and
- *Family Assistance Office Guide to Payments*.

2.6 Centrelink has also produced two booklets, which provide information about a range of income support payments administered by Centrelink. The booklets also include material relevant to the FTB Programme. They are called:

- *Are you a parent or guardian;* and
- *A guide to Australian Government payments.*

2.7 Each of the four publications outlines the basic eligibility requirements for customers to access FTB payments, including residential requirements and the income thresholds for different payment types and rates.[57] The two FAO publications go into greater detail regarding the factors to consider in estimating the family income. For example, *The what, why and how of Family Assistance* informs customers that:

> The income you need to tell the Family Assistance Office is your and your partner's adjusted taxable income and is:

[57] Eligibility requirements were discussed in Chapter 1.

- taxable income, including taxable pensions and benefits (for example Parenting Payment, Newstart Allowance, Department of Veterans' Affairs payments);
- **plus** reportable fringe benefits;
- **plus** the value of any tax-free pensions or benefits (for example Disability Support Pension, Department of Veterans' Affairs payments);
- **plus** the value of any net rental loss from any real estate or investment property you own;
- **plus** any foreign income that is not taxable in Australia;
- **less** the full amount of any child support you and/or your partner pay.[58]

2.8 Both FAO booklets inform prospective FTB customers of a risk of overpayment and offer strategies and payments choices to reduce the risk.

2.9 *The what, why and how of Family Assistance* booklet contains a section titled 'Reducing the risk of an overpayment'. This section helps customers determine if they are a family that is likely to incur a debt at the end of the financial year.

> You are at high risk of being overpaid if your family has:
>
> - an income between \$30 000 and \$60 000; **or**
> - an income of \$90 000 or more; **or**
> - more than one income earner; **or**
> - income changes because of irregular shift work, overtime or bonuses; **or**
> - an income that is hard to estimate because you are a casual worker, you work on commission or contract, or have received a bonus on redundancy payment; **or**
> - income from business or self-employment; **or**
> - a child who may earn over the income limit.[59]

2.10 The booklet details four steps for families to follow if they are planning to receive their FTB entitlement fortnightly. The four steps focus on helping customers to accurately estimate their income and remind customers of the need to let the Family Assistance Office know about any changes in the family's circumstances that may affect eligibility for FTB.

2.11 The *Family Assistance Office Guide to Payments* also outlines the reconciliation process and payment options available to families to reduce the

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[58] Family Assistance Office 2005, *The what, why and how of Family Assistance*, FaCSIA, Canberra p. 7.

[59] ibid.

risk of overpayment.[60] It presents a particular focus on correctly estimating family income and informs customers of how they may update their income estimate by contacting the FAO or using the www.familyassist.gov.au website.

2.12 Centrelink's booklet, titled *Are you a parent or guardian,* includes descriptions of Centrelink administered payments available to parents or guardians and the eligibility requirements for each payment. The booklet discusses FTB Parts A and B. It explains how payments are calculated and what other benefits may be available to FTB customers. A section of the booklet discusses how customers may choose to receive their FTB entitlement. For example:

> If you receive Family Tax Benefit as fortnightly payments, you have choices about how you are paid. You can ask the Family Assistance Office to adjust your payments to reduce the risk of an overpayment. You can also choose to receive some of your entitlement during the year and the remainder after the end of the year.[61]

2.13 There is a note accompanying the payment descriptions that states:

> **Important:** If you receive Family Tax Benefit as a fortnightly payment, you must let the Family Assistance Office know straight away if your income or family circumstances change.[62]

2.14 The booklet describes the reconciliation process as a 'balancing process' and states that the total amount of FTB payments received by the customer will be checked against the amount they should have received, based on their actual family income, which is provided to the FAO by the ATO.

2.15 The other booklet produced by Centrelink, *A guide to Australian Government Payments* contains information on benefits administered by Centrelink including FTB Parts A and B. It provides information on the income threshold for each payment type and the payment rates.

Audit finding

2.16 The ANAO found that these primary FAO and Centrelink publications provide comprehensive advice to customers about the eligibility requirements, payment rates, payment options, and strategies to avoid a reconciliation debt. The publications should assist customers to accurately estimate their income.

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60 The payment options are discussed later in this chapter.

61 Centrelink 2005, *Are you a parent or guardian?*, Centrelink, Canberra p. 5.

62 ibid.

The risks associated with incorrectly estimating family income are clearly presented and customers are repeatedly warned of the consequences of doing so. The publications encourage customers to choose the most appropriate risk mitigation strategy for their family.[63]

Regional Debt Prevention Project - Centrelink

Perth – Information sessions for migrants and refugees

Perth has a substantial migrant and refugee population. This can sometimes pose a challenge to FAO staff in terms of helping customers understand the programme and their obligations if the customers speak little or no English and/or do not have experience with a welfare and tax system. As a result, the Multicultural Service Officers in Perth have devised a number of strategies to communicate better with customers. These include targeting ethnic groups through an involvement with seminars or expos, enabling direct access by customers to the Multicultural Service Officers and working with the Migrant Resource Centres to distribute information to customers in their own language. A focus of these activities is to help customers understand the importance of providing an accurate income estimate. The sessions also explain when and why estimates need to be updated and that the risk of providing an inaccurate estimate is that the customer may incur a debt.

Source: The ANAO's discussions with the Multicultural Service Officers – Area West Australia, Centrelink.

[63] Many of these strategies are discussed in a later section of this chapter.

Information about avoiding qualification debt

2.17 *The what, why and how of Family Assistance* booklet also outlines other issues that can lead to qualification debt. It includes a discussion of child support payments and the impact of maintenance income on FTB entitlements.[64] It explains the two methods used by the FAO to assess child support payments: the Entitlement Assessment method;[65] and the Disbursement Assessment Method.[66] The booklet provides advice to customers on which method may be most appropriate for their circumstances.

2.18 The booklet discusses shared care arrangements[67] and how these can impact on FTB entitlement. It explains that the percentage of care a parent has of a child affects how much FTB the parent can claim. It provides advice to customers on how to calculate their shared care percentage and explains what to do if there is a disagreement about shared care percentages.

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[64] The terms ‘child support’, ‘maintenance’ and ‘maintenance income’ have specific meanings in the Family Assistance legislation. Subsection 3(1) of the *A New Tax System (Family Assistance) Act 1999* states:

child support means financial support under the Child Support (Assessment) Act 1989 and includes financial support:

(a) by way of lump sum payment; or

(b) by way of transfer or settlement of property.

maintenance includes child support.

maintenance income, in relation to an individual, means:

(a) child maintenance–that is, the amount of a payment or the value of a benefit that is received by the individual for the maintenance of an FTB child of the individual and is received from: (i) a parent of the child; or (ii) the partner or former partner of a parent of the child; or

(b) partner maintenance–that is, the amount of a payment or the value of a benefit that is received by the individual for the individual's own maintenance and is received from the individual's partner or former partner; or

(c) direct child maintenance–that is, the amount of a payment or the value of a benefit that is received by an FTB child of the individual for the child's own maintenance and is received from: (i) a parent of the child; or (ii) the partner or former partner of a parent of the child;

but does not include disability expenses maintenance.

[65] The Entitlement Assessment method uses the amount of child support a customer should be getting to determine their FTB entitlement. For example, if the customer has a court order to receive $50 per fortnight, then that amount is used to calculate their entitlement.

[66] The Disbursement Assessment method uses the actual amount of child support a customer receives to determine their FTB entitlement. For example, a customer has a court order in place stating that they are to be paid $50 a fortnight. The customer receives $50 one fortnight and then $20 the following fortnight. The FAO calculates the customer’s FTB entitlement based on $50 for the first fortnight, and then when the customer only receives $20 in the next fortnight, the FAO recalculates the customer’s FTB entitlement.

[67] Where a child spends some time in the care of a person other than the FTB customer or their current partner. For example, if the couple is separated and the child spends weekends and school holidays with their other parent.

2.19 Centrelink's *Are you a parent or guardian* booklet also has a section that provides information on shared care. This section explains shared care and the significance of shared care percentages for FTB payments. It also discusses child support reasonable maintenance action.[68]

Information about tax returns

2.20 The ANAO's examination of the messages conveyed in the FAO booklets suggests that less attention is paid to preventing non-lodger debt, than is evident in relation to reconciliation and qualification debt. In contrast to the abundant advice offered in *The what, why and how of Family Assistance* booklet on income estimates and circumstance changes, there is not a strong focus on advising customers of their obligation to lodge a tax return as part of their FTB claim.[69]

2.21 This is not to say that the lodgement of tax returns is ignored in the booklets, rather that it is assumed that FTB customers will lodge tax returns. For example,

> At the end of the financial year, to make sure everyone gets the correct amount, the payments are balanced against your **Actual Annual Family Income** when you and your partner lodge your tax returns with the Tax Office[70].

2.22 While Centrelink's *Are you a parent or guardian* booklet states that customers 'should' lodge a tax return:

> You and your partner should lodge your tax returns with the Australian Taxation Office before the due date, or tell the Family Assistance Office if you are not required to lodge a return within 12 months of the end of the financial year.[71]

The ANAO observed that neither booklet emphasises to customers that they are required to lodge a tax return, as a condition of FTB entitlement.

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[68] Reasonable maintenance action is relevant for parents that have recently applied for FTB and are caring for children from a previous relationship. If the parent cares for the child for more than 30 per cent of the time, the parent must apply to the Child Support Agency for a child support assessment. If the customer fails to do this, they are ineligible to receive FTB Part A above the base rate.

[69] Or telling the FAO if they are not required to lodge a tax return.

[70] FAO 2005, *The what, why and how of Family Assistance*, FAO, p. 4.

[71] Centrelink 2005, *Are you a parent or guardian?, Centrelink, Canberra.*

Audit finding

2.23 The ANAO found that, while a particular emphasis is placed on advice helping customers to avoid reconciliation and qualification debts, the written material was less direct on the requirement for customers to lodge tax returns. This is so notwithstanding that the consequence of failing to lodge a tax return when one is required is that the entire year's FTB payment may be raised as a debt.

FTB claim forms

2.24 In order to lodge a claim for FTB, a customer must complete an FTB claim form. The ANAO examined the following claim forms:

- FAO—*Claim for an annual lump sum payment of Family Tax Benefit for the 2005–06 financial year;*[72]
- FAO—*Claim for Family Tax Benefit (Maternity Allowance and Maternity Immunisation Allowance) for the 2002–03 income (financial) year* [the old claim form for FTB as fortnightly payments];[73]
- ATO—*Family Tax Benefit (FTB) tax claim 2006* [standard and short form], for annual lump sum, supported by *Withholding Declaration Form* [for FTB through reduced income tax withholdings];[74] and
- FAO—*Newborn/Child Claim for Family Assistance and Medicare* [the new FAO claim form introduced at the beginning of 2006].[75]

FAO claim forms

2.25 The FAO lump-sum claim form is 32 pages in length and is supported by a FAO information booklet called, *Information booklet about your claim for Family Assistance*. The form collects extensive information about customers including details about dependent children, residency status and information about customers returning to work. It also collects information about the customer's income and provides advice about elements to be included in the family's income estimate. The claim form includes a checklist of documentary evidence required to substantiate the customer's claim—such as, proof of

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72 Designated FAO48.0607.

73 Designated FAO01.0207.

74 Standard form designated NAT 4117-6.2006, Short form designated NAT 4153-6.2006, Withholding declaration designated NAT 3093-07.2006, Withholding worksheet designated NAT 7089-07.2006.

75 Designated FAO04(P).0604

residency status, rental details (for customers claiming rent assistance) and birth certificates for dependent children.

2.26 The FAO form for fortnightly payments, in use until the end of 2005, sought the same information as the lump sum form. However, it also collected information on the family's income estimate and payment options. The old form was 26 pages in length. It was replaced at the beginning of 2006 by a new streamlined form, four pages in length. The new form collects significantly less information than the old—essentially, it only collects sufficient information to add a newborn child to an existing FTB customer record.

2.27 The form does not collect information on the customer's residency status, income details or any other dependent children. It advises customers that are not already receiving FTB that they need to provide more information to the FAO in order to complete the claim:

> You need to give the Family Assistance Office more information to complete your claim, including:
>
> - your bank account details;
> - your (and your partner's) Tax File Number;
> - your (and your partner's) annual income; and
> - your family's residency details.[76]

2.28 In order to process claims submitted by new FTB customers, FAO staff are often required to contact the customer to gather the additional information. FaCSIA advised the ANAO that, prior to the introduction of the revised form, Centrelink and Medicare Australia provided assurance that:

> Scripts[77] were available for staff to guide dealings with claimants for Family Payments to ensure a consistent level of service across the network.
>
> [FaCSIA also advised the ANAO that]
>
> Centrelink and Medicare Australia have essentially moved from a system where some information, which was previously collected in writing, is now collected via direct contact with the customer. At present, Centrelink enters this information directly into their computer system. From December 2006, the information gathered by Centrelink from the claim and subsequent contact,

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[76] FAO, Newborn/Child Claim for Family Assistance and Medicare, FAO04(P).0604.

[77] A script is a computer program which assists a Customer Service Officer to navigate through a series of data screens and activities. They are designed to help the staff member comprehensively complete particular tasks and to ensure correct coding and recording of information.

will be compiled into a personalised claim form and sent to the claimant for signature and return prior to payment commencing.[78]

2.29 During discussions between the ANAO and FAO staff in a number of Customer Service Centres and Call Centres, the ANAO observed a marked difference in the way the form was received across the network. Some FAO staff viewed the introduction of the new form as a backward step, as it does not collect sufficient information to enable them to efficiently process a claim. Other staff viewed the change as beneficial, because it prompted further contact between the customer and the FAO, by telephone or personal interview, which allowed FAO staff to assist customers to better understand the FTB Programme.

Audit finding

2.30 The ANAO found that the customer contact required to process a new FTB claim provides a good opportunity for FAO staff to assist the customer to accurately estimate the family's income and discuss the customer's obligations, such as lodging a tax return and advising the FAO if their family's circumstances change.

2.31 However, at this time, the impact of the administrative workload associated with additional customer contact, including the addition of a proposed personalised FTB claim form for new customers, is difficult to assess. Given the diversity of views observed in the FAO network, the ANAO also considers that different work practices may be employed across the FAO network, which could lead to inconsistent advice to FTB customers.

Recommendation No.1

2.32 The ANAO recommends that the FAO evaluates the introduction of the new FTB claim form (FAO04), for its impact on administrative workload and consistency of advice to new FTB customers.

Agency responses

2.33 All agencies involved in this audit agreed with the recommendation. A full account of agency responses is included at Appendix 5.

ATO claim forms

2.34 There are two ATO claim forms—a standard and a short version. The short claim form is designed for customers with a straightforward family

78 FaCSIA advice to the ANAO of 4 September 2006.

situation—for example, the same family profile for the entire FTB year. The standard claim form allows customers with a more complex family situation to provide additional information—such as a change of partner during the year, children entering or leaving care, variations to shared care arrangements and return to work details.

2.35 In most cases, the ATO claim forms are lodged with the customer's tax return so separate income details are not required. Should the customer wish to receive FTB payments through a reduction in withholding tax each fortnight, they complete a Withholding Declaration Form, yet still lodge the FTB tax claim with their tax return. An information booklet that accompanies the Withholding Declaration Form provides customers with comprehensive information about the FTB Programme, including advice on estimating income. The booklet also contains a clear and direct message to customers that they (and their partner) must lodge a tax return by the due date.

2.36 The ATO booklet *Family Tax Benefit (FTB) tax claim Instructions 2005* also contains a clear message to prospective customers:

> TO HAVE ANY ENTITLEMENT TO FAMILY TAX BENEFIT;
>
> - you must your lodge your *Family Tax Benefit (FTB) tax claim 2005* by 30 June 2007
>   AND
> - you must lodge your 2005 tax return
>   AND
> - your spouse (if you have one) must also lodge their tax return, if they are required to do so.[79]

2.37 The ANAO noted a specific difference between the claim forms of the FAO and the ATO. That is, the ATO form does not seek documentary evidence of the customer's FTB residency status. However, the claimant is required to sign the FTB Tax Claimant's declaration on the back of the ATO form, that the customer meets the FTB residency requirements.

2.38 In addition, an FTB claimant may be entitled to rent assistance and/or a Health Care Card. Neither of these benefits may be claimed through the ATO. The ATO claim form advises a customer, who may wish to claim rent assistance or a Health Care Card, to lodge such claims through the FAO.

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79 ATO, *Family Tax Benefit (FTB) tax claim Instructions 2005,* p2.

Audit Findings

2.39 The ANAO found that the various ATO FTB claim forms provided comprehensive advice to claimants about the FTB Programme—in particular, the importance of accurately estimating income and the need to submit a tax return.

Internet

2.40 The main Internet website for the FTB Programme is the Family Assistance website, www.familyassist.gov.au. The Family Assistance website provides comprehensive advice on how to accurately estimate income and contains a facility for customers to update their income estimate online. There is specific advice for customers with a regular income and those with an irregular income. The website also includes an income calculator—to assist customers with calculating an income estimate for their family.

2.41 The website specifies the elements included as income for FTB purposes and includes the warning:

> We realise that estimating your family's income may not be easy, especially if it is not regular, however it is important that you estimate your family's annual income as accurately as possible to reduce the risk of being overpaid[80].

2.42 Centrelink's website (www.centrelink.gov.au) also provides information on the FTB Programme. The website presents reminders for customers to tell Centrelink about changes in their circumstances and provides advice on the type of circumstance changes that may affect benefit entitlements. It also mentions that failing to tell Centrelink about circumstance changes can result in a debt.

2.43 However, neither website presents a strong message that customers are required to lodge a tax return as part of their FTB claim. Some website pages—such as those that explain FTB payment rates and the supplement payments—contain brief references to lodging tax returns:

> **Please note:** Family Tax Benefit Part B includes a supplement. The supplement is only available after the end of the financial year when your payments are balanced. This will happen after you and your partner have lodged your tax

80 Source: <http://www.familyassist.gov.au/Internet/FAO/fao1.nsf/content/getting_started-how_paid-fortnightly-estimate_income-why_estimate_f_income.htm > [accessed 12 September 2006].

returns with the Tax Office. If you or your partner are not required to lodge a tax return you should tell the Family Assistance Office.[81]

Regional Debt Prevention Project – Centrelink

Perth – Letters to customers with outstanding non-lodger debts

The debt recovery team in Perth developed a project designed to educate customers in Area West about the need to lodge tax returns. The project involved writing to customers with an outstanding non-lodger debt for the financial years of 2000–01 and/or 2001–02.

The letter reminded the customer about the requirement to lodge a tax return for the relevant financial year. In total, 800 letters were sent. The Debt Recovery team achieved a 25% response rate to the letters, with over half of these customers either lodging tax returns or informing the FAO that they were not required to lodge.

Perth – Letters to Indigenous customers with non-lodger debts

The Indigenous Services team in Perth sent letters to Indigenous customers with outstanding non-lodger debts. The letters were tailored to Indigenous customers and were written in plain English and featured the Indigenous flower symbol.

The letters asked customers to contact a specifically appointed team to discuss their non-lodger debts. The Area West team achieved a good response rate to the mail-out and for many customers who contacted the team, the customer's debt was cancelled as it was determined that the customer was not actually required to lodge a tax return.

Source: The ANAO's discussions with Debt Recovery Team members and the Manager of Indigenous Services – Area West Australia, Centrelink.

2.44 The ANAO examined the Australian Taxation Office's website—www.ato.gov.au—for information on FTB and FTB customers' obligation to lodge a tax return. The website presents detail about those elements of income included or excluded for the purposes of adjusted taxable income. It also outlines the eligibility requirements for FTB Parts A and B and contains an FTB calculator. The ATO website presents limited information on the importance of income estimates. Most customers claiming FTB through the ATO do so via a lump sum claim submitted with their tax returns, and therefore income estimates are not required—actual taxable income will be available as a result of the income tax assessment.

2.45 Similar to the Centrelink and Family Assistance websites, the ATO website does not present a strong direction to customers about their obligation to lodge a tax return, as part of the FTB eligibility requirements. A section of the website that describes the FTB Programme contains one reference to tax

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81 Centrelink 2006, *How much Family Tax Benefit Part B do I get?*, Centrelink, Canberra, available from <http://www.centrelink.gov.au/internet/internet.nsf/payments/pay_how_ftbb.htm> [accessed: 14 July 2006].

lodgement, which is to advise customers on how to lodge a FTB claim with the ATO:

> How to claim FTB from the Tax Office
>
> If you would like to claim your FTB from the Tax Office you will need to complete a separate form, the *Family tax benefit (FTB) tax claim 2005–06* and then lodge it with or after your tax return.
>
> This form is included with the *Family tax benefit (FTB) tax claim instructions 2005–06*. An FTB tax claim for the 2005–06 financial year can be accepted until 30 June 2008.[82]

2.46 While the Medicare Australia website lists the FAO services available through Medicare Australia offices, it directs customers to the FAO website for detailed information about the FTB Programme.

Audit finding

2.47 The ANAO found that the Family Assistance website presents customers with similar information to that available in published booklets. The individual websites of all FAO partners contained links to the Family Assistance website. Centrelink, as the major service delivery agency in the FAO network, also provided comprehensive information via its website.

2.48 In addition, the Family Assistance website contains a variety of features that assist customers to estimate family income and likely FTB entitlement. The Centrelink and Family Assistance websites also provided a facility for FTB customers to update their income estimate over the Internet.

2.49 The ANAO noted a similar trend on the websites, to that observed in published booklets, regarding the lack of a strong message about the need to lodge tax returns. In most cases, where the websites refer to tax returns, it is to help explain the reconciliation process rather than inform customers that tax return lodgement, or notification to FAO that the customer and/or their partner are not required to lodge a tax return, is an essential requirement to demonstrate eligibility for FTB.

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[82] ATO 2006, *How to claim FTB from the Tax Office*, ATO, Canberra, available from <http://www.ato.gov.au/individuals/ content.asp?doc=/content/21556.htm> [accessed 17 July 2006].

Regional Debt Prevention Project – Centrelink

Darwin – Targeting Indigenous non-lodger debt

The Indigenous debt recovery team in Darwin examined all 1 123 Area North Australia (ANA) Indigenous customers who had outstanding 2001–02 non-lodger debts (as at April 2004). The team re-assessed some 500 of these debts in the customer's favour, thereby reducing ANA's non-lodger debt levels by approximately $2.25 million. The re-assessment essentially involved checking with the customer whether they were required to lodge a tax return.

Crucially, 520 of the 1 123 ANA non-lodgers were customers designated as 'remote'. For the remote non-lodgers, some 425 (82%) of reviews were finalised in the customer's favour. For the remaining 603 'in-town' non-lodgers, only 75 (12%) of reviews were finalised in the customer's favour. This information allowed ANA to concentrate future efforts to prevent non-lodger debt appropriately. It suggested that remote customers were less likely to be required to lodge tax returns than those living in-town.

Source: The ANAO's discussions with Debt Prevention Officer, Area North Australia, Centrelink.

Educating customers

2.50 In the first two years of the FTB Programme, some 33 per cent of customers incurred a debt because of inaccurate estimates for the family income or shared care arrangements. In order to help customers avoid an FTB debt in subsequent years, the FAO introduced a range of strategies and measures specifically focussed on reducing the incidence of reconciliation debt.

2.51 Some of these measures, particularly those involving legislative and policy changes are discussed in other sections of this report. However, in 2001 Centrelink implemented a strategy called 'Every customer, every contact, every time' (ECECET).[83] The strategy was to be followed by all Centrelink staff, including call centre staff, across all payment streams whenever they made contact with an FTB customer.

2.52 ECECET requires Centrelink Customer Service Officers (CSOs) to confirm that the income estimate recorded for FTB customers is up to date. For example, a Centrelink customer receiving an income support payment, such as Newstart Allowance, may contact a call centre in order to provide Centrelink with information about their recent earnings. The call centre operator is required to check whether the customer also receives FTB payments, and if so, confirm with the customer whether the recorded income estimate is still

[83] The ECECET policy was reinforced in 2004, as part of the implementation of the More Choice for Families initiative. (See later in this chapter.)

correct. If the customer then advises that the income estimate is no longer current, the CSO invites the customer to provide an updated estimate.

Audit finding

2.53 The ECECET strategy is aimed at ensuring that customers who contact Centrelink, for whatever reason, are reminded about the importance of their income estimate and prompted to update their estimate. The ANAO considers that this approach should be effective in assisting FTB customers to avoid reconciliation debt by more accurately estimating the family income.

Direct intervention

2.54 In addition to improving information sources and communication with FTB customers, the FAO developed a specific debt prevention project. Introduced in the 2005–06 Federal Budget, a project titled Assistance to Families at Risk of Overpayment (AFRO) was aimed at helping families that had difficulty estimating their income. These families were most at risk of incurring an FTB reconciliation debt.

2.55 The AFRO program is administered by Centrelink and has two major components: identifying customers at risk; and making direct contact with those customers, either by telephone or through information sessions. The purpose of the program is to explain how the Family Assistance system works, emphasise the importance of an accurate income estimate and improve customer satisfaction with FAO services.

2.56 The FAO set a target to successfully contact 20 000 families by telephone during the 2005–06 financial year. In order to identify those customers at greatest risk of overpayment, the FAO used a series of predictors.

> To determine the target customer groups, the Project Team have identified predictors indicating changes in circumstances most likely to reflect opportunities for overpayments to occur.[84]

[84] 2005, FAO, *2005 Budget Deliverable: Assistance to Families at Risk of Overpayment*, Version 1.3, p. 2.

2.57 Five primary predictors were identified as:

- customers receiving a tapered[85] or broken rate[86] of FTB A and/or B;
- customers that have an FTB child aged greater than one month but less than 12 months of age who has commenced approved child care in the last 90 days;
- customers whose youngest child is aged between four years, six months and six years, one month;
- customers whose 2002–03 income estimate was less than their 2001–02 adjusted taxable income; and
- customers who had a previous reconciliation debt between $500 and $3 000.

2.58 Using these predictors the FAO identified approximately 65 000 FTB customers. These customers were then separated into five mutually exclusive groups.[87] Using the list of 65 000 high risk customers, Centrelink staff attempted to contact customers by telephone.[88] Following a set of questions in a specially prepared script the staff member explained the purpose of the initiative and invited customers to update their income estimate. The results of the initial telephone contact with these customers are shown in the table below.

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85 The tapered rate is less than the base rate FTB A but greater than zero.

86 The broken rate for FTB A is less than the maximum rate of FTB A but more than the base rate and for FTB B is less than the maximum rate but greater than zero.

87 The first three groups all shared predictors two to five (above), and the differing factor was whether the customer was on a broken or tapered rate for both FTB parts A and B, part A only or part B only. The fourth group consisted of current FTB customers that had four past reconciliation debts, three of which were over $500. The fifth group consisted of current FTB customers being paid on the broken or tapered rate of FTB A and/or B, and who had increased their income estimate but had not chosen an option to receive reduced fortnightly instalments, and so offset any potential overpayment.

88 Until the target of 20 000 successful contacts was achieved.

Table 2.1

Results of initial AFRO telephone contact

Outcome of successful contact	Number of customers	Percentage of total
Income estimate updated	8 982	44.5
Payment choices updated	960	4.8
Other circumstances updated	332	1.6
Reasonable current year estimate – no update	9 289	46.0
Single income support – no update	296	1.5
No comment from customer – no update	342	1.7
Total number of contacts	20 201	100

Source: Centrelink, AFRO report – final run as at 20 January 2006.

Note: The percentages in column three do not total 100 due to rounding.

2.59 The FAO followed up the initial contact with a second round of telephone calls to these customers in April 2006.

2.60 Another component of the AFRO initiative was a series of customer information sessions targeted at specific groups. For example, in Sydney's west the sessions attempted to reach pregnant women, and parents that had recently had a baby. In Sydney's east customers from non-English speaking backgrounds received information sessions in languages such as Vietnamese and Arabic. In Sydney's south, AFRO teams targeted working parents.

2.61 FAO activity extended to:

- visiting hospitals and speaking to patients;
- operating an information centre at the Sydney Parents, Babies and Children's Expo in April 2006; and
- working through employers in large city office blocks, holding information sessions during lunch hours and after work.

2.62 During the sessions, Centrelink CSOs and/or debt prevention officers discussed the FTB Programme and the importance of income estimates. At some of the sessions, CSOs were available to update customer details or accept new FTB claims.

Audit finding

2.63 The ANAO found that the AFRO project was effective in encouraging participants to update their income estimates. As a consequence, participants in the AFRO project are less likely to incur reconciliation debts in respect of the 2005–06 financial year.

Regional Debt Prevention Project – Centrelink

Coffs Harbour – Indigenous and Migrant Group Information sessions

Employing a similar strategy to the AFRO project, Centrelink's debt management team located in Coffs Harbour ran a number of customer information sessions. Coffs Harbour has a significant migrant and refugee population. The Pacific Central Area identified that some of these customers had difficulty understanding the FAO system and their responsibility as FAO customers. Therefore, the Area conducted a number of information sessions for these customers, using interpreters. Customers were educated about the FAO system, the importance of accurate income estimates and the requirement to lodge a tax return.

Coffs Harbour is also home to an Indigenous community, supported by a number of local Indigenous organisations. Centrelink representatives have delivered presentations to some of these organisations. The aim has been to assist Indigenous customers understand the Centrelink and FAO systems. Centrelink representatives often take this opportunity to discuss the importance of accurate income estimates for FTB customers, and other customer obligations such as lodging a tax return or advising FAO if they are not required to lodge a tax return.

Source: The ANAO's discussions with Debt Management Officer – Pacific Central Area, Centrelink.

Legislative and policy changes

2.64 Since the introduction of the FTB Programme the FAO has introduced a number of policy and legislative changes aimed at helping customers reduce the risk of an overpayment. These include the 'More Choice for Families' and 'More Help for Families' packages and a new range of measures introduced in the 2005–06 Federal Budget. Many of these measures were designed to give customers greater choice in their payment options, while others represent enhancements to the programme that remove complexities, which had in the past led to customers incurring debts.

More Choice for Families

2.65 Customers who update their income estimate may still incur a reconciliation debt. This happens because FTB entitlements are calculated annually. In order to determine the fortnightly instalment rate for customers, the annual entitlement is divided by 365 and multiplied by 14. Therefore, even though a customer updates their income estimate and a new legislative entitlement rate is calculated using this estimate, the customer has been overpaid for the earlier part of the year. The following example illustrates how this may occur.

Figure 2.1

Example – updating estimates before the continuous adjustment option was introduced in November 2002

Judy receives fortnightly FTB A payments. At the start of the financial year Judy submitted an income estimate of $40 000. Judy started a new job during the year and called Centrelink in January to increase her income estimate to $60 000. Centrelink calculate a new fortnightly payment amount using her new estimate of $60 000. However, because Judy has already been paid for 6 months using the $40 000 estimate, she has been overpaid and, if no offsetting action is taken, will incur a FTB debt when her claim is reconciled after she lodges her tax return.

Source: The ANAO.

2.66 In November 2002, the FAO introduced a policy enhancement as part of the More Choice for Families package to help families avoid this type of debt. The enhancement enables customers who increase their income estimate to offset any debt already incurred. Customers do this by choosing to receive an adjusted rate instead of their new legislative entitlement rate. The adjusted rate is based on their new entitlement rate but is reduced to offset any debt already incurred. This form of payments is called continuous adjustment.[89]

Figure 2.2

Example – updating estimates after the continuous adjustment option was introduced in November 2002

Under the continuous adjustment option, Judy can tell Centrelink that she would like her payments reduced to either partially or fully offset any debt she may have already incurred. That is, Judy can choose to receive less than her legislative entitlement based on an income estimate of $60 000.

Source: The ANAO.

2.67 The More Choice for Families package enabled customers to elect to receive the base rate of FTB Parts A and/or B as fortnightly payments and then at the end of the year be assessed for any further entitlement to be paid as a lump sum. The full range of options available to customers is at Appendix 2. The benefit of this option is that customers may still receive fortnightly

[89] Once a customer has selected continuous adjustment as their payment method they can update their income estimate as regularly as they choose and their new payment rate will always be adjusted to offset any debt that may have already been incurred. Customers can elect to stop continuous adjustment at any time during the year and receive their payment based on the legislative entitlement rate.

payments but reduce the risk of incurring a reconciliation debt by receiving less than their legislative entitlement and opting to receive the base rate.

Regional Debt Prevention Project – Centrelink

Brisbane Debt Recovery Centre – Contacting customers with an income estimate <$6 000

In late 2005, the Brisbane Debt Prevention Team contacted 195 customers who were partnered, their partner was not on an income support benefit and they had an income estimate of less than $6 000.

The customers were contacted by telephone and asked if the income estimate for the family was correct. Customers were invited to update the estimate, as appropriate.

As a result of the contact:

69% of the customers contacted updated their estimate;

25% of the customers contacted confirmed their estimate; and

6% of the customers contacted had their entitlement cancelled.

In some other cases, where the customer could not be contacted and they subsequently failed to contact the FAO, and where the debt recovery team had reason to believe the family's income estimate was unreasonable, the FAO cancelled FTB entitlements until the customer contacted the FAO to confirm or update the estimate.

Source: The ANAO's discussions with Debt Management Officers, Brisbane Debt Recovery Centre, Centrelink.

More Help for Families

2.68 Another set of measures was introduced in the 2004–05 Federal Budget, as part of the More Help for Families package. Among these was an increase in the base rate of FTB Part A of $600 per child, per annum[90]—the FTB Part A supplement payment. This amount is paid as a lump sum after reconciliation. Although not specifically designed as a debt prevention measure, the supplement is used to partially or totally offset debts arising from reconciliation. In January 2005, the FAO introduced an increase to the rate of FTB Part B of $300 per family, per annum—the FTB Part B supplement.[91] This amount is also paid as a lump sum after reconciliation. The effect of the supplements is examined in a later chapter of this report.

2.69 Another component of the More Help for Families package was the quarantining of FTB Part B benefits, under certain circumstances. Normally,

90 The supplement is available to customers after the end of the financial year, upon reconciliation. It is indexed each year by the Consumer Price Index. Historical rates of the FTB A supplement are shown in Appendix 3. FaCSIA, Family Assistance Guide, section 3.6.1 – FTB Part A Historical rates, available from <http://www.facs.gov.au/guides_acts/ fag/faguide-3/faguide-3.6/faguide-3.6.1.html> [accessed 24 August 2006].

91 In the first year of operation, the FTB Part B supplement was paid for the period 1 January 2005 to 30 June 2005—an amount of $150.23 per family.

FTB Part B entitlements are calculated for an entire financial year—that is, the income limit for the lower earner applies to a full 12 month period. This measure allows FTB Part B payments to be quarantined for part of a financial year. *The what, why and how of Family Assistance* booklet describes the measure as:

> From 1 July 2005, parents who return to work after the birth of a child may be entitled to the maximum rate of FTB Part B for the financial year period before returning to work.

2.70 For example, a customer may stop work for six months after the birth of their child. During that period the customer was eligible for the maximum rate of FTB Part B. Upon returning to work, the customer may earn sufficient income in the next six months to exceed the income limit for the financial year. Without this measure, the customer would have incurred a debt for the FTB Part B payments received while they were not working.

Regional Debt Prevention Project – Centrelink

Melbourne Debt Recovery Team - Commonwealth Games

In March 2006, the Melbourne team initiated a prevention project aimed at FTB customers involved with the Commonwealth Games. The initiative was targeted to reach customers working for organisations, such as sponsors or partners, of the Commonwealth Games. The FAO anticipated that some of these customers may earn extra income from working overtime and may neglect to inform the FAO of their change in income. Consequently, upon reconciliation the customer would incur a debt.

The FAO contacted partners and sponsors of the Commonwealth Games and provided the organisations with material, such as information to circulate via email to staff. The information reminded FAO customers of the importance of updating their income estimates, if their income had changed as a result of extra work undertaken for the Commonwealth Games.

Source: ANAO discussions with Debt Prevention Officer – Melbourne Debt Recovery Team, Centrelink.

National Debt Prevention Project – Centrelink

Canberra/National – 2006 Census collectors

Centrelink collaborated with the Australian Bureau of Statistics (ABS) in an initiative to improve communication with casual employees involved in the 2006 Census. The ABS included a message in the Census workers' payslips, alerting those in receipt of FTB to update their income estimates if appropriate.

Source: Centrelink National Support Office, Canberra.

2005–06 Budget Measures

2.71 On 1 July 2006, a further set of measures, announced in the 2005–06 Budget, commenced. Some of these related to improving debt recovery, however, three measures related to helping customers avoid a reconciliation debt. These were:

- an automatic income estimate uplift;
- a maintenance income credit; and
- a negotiated payment rate for FTB.

2.72 At the beginning of each financial year, the FAO writes to FTB customers inviting them to submit a revised income estimate for the coming year.

> The purpose of the new financial year assessment of FA is to ensure that recipients who choose to receive their entitlements through the FAO as fortnightly payments and/or fee reductions are assessed against their current circumstances, including an estimate of their new financial year income from 1 July each year.[92]

2.73 Previous experience has shown that many customers do not provide an updated income estimate. Until 1 July 2006, the FAO was, in these cases, obliged to rely on the latest income estimate submitted by the customer. Some customers had not updated their income estimates since 2000. These families were at risk of being overpaid during the year and subsequently incurring a reconciliation debt.

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92 FaCSIA, Family Assistance Guide, section 4.9.1 — Overview of new financial year assessments, available from <http://www.facs.gov.au/guides_acts/fag/faguide-4/faguide-4.9/faguide-4.9.1.html> [accessed 17 August 2006].

2.74 From July 2006, families will be advised of a default income estimate, based on the family's previous estimate, adjusted by a factor to reflect an increase in average weekly earnings. When the customer's adjusted taxable income becomes available during reconciliation, the FAO system will compare the default estimate with the adjusted taxable income, indexed by average weekly earnings. If the derived estimate is higher than the current estimate, the indexed, adjusted taxable income will be substituted as the new default estimate.

2.75 The FAO expects the Automatic Income Estimate Uplift process to reduce the incidence of reconciliation debt, as income estimates are expected to be more accurate. This measure was costed by FaCSIA at $18.6 million over four years and is expected to reduce the level of debt by $115.2 million over four years.

2.76 The second 2005–06 Budget measure, Maintenance Income Credit, relates to the manner in which child support payments are treated. Previously, reconciliation debts could arise when FTB customers, who were entitled to child support (maintenance) income, received a lump sum payment of maintenance arrears.

2.77 The arrears usually arose from missed payments in previous years. However the lump sum payment was considered as income for the customer in the current financial year. Although the FTB Programme has maintenance income free areas,[93] previously these were only available for the current financial year. Therefore, a lump-sum payment of maintenance income arrears would breach the maintenance income free area for the current financial year and the customer would have been overpaid and incurred a debt. However, if the maintenance income had been paid in the year that it was due, the customer would have had the benefit of the maintenance income free area and therefore, the FTB payment would not have been so affected.

2.78 The new measure enables customers to use their maintenance income free areas from previous years to offset late payments of maintenance income. FaCSIA has costed this measure at $54.8 million over four years and expects to reduce FTB debt by $41.6 million over four years.

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93 The Maintenance Income Free Area is the amount of maintenance a customer can receive before the customer's FTB A payments are reduced.

2.79 A third measure, Negotiated Payment Option, is similar to the option of continuous adjustment discussed earlier. When some customers update their income estimate, they may not be able to afford the continuous adjustment rate, calculated to offset their potential overpayment. Under the new measure, customers may negotiate a rate of payment higher than the continuous adjustment rate but less than their new legislative entitlement.

2.80 Therefore, customers using this option will not offset their potential debt entirely but will reduce the amount of the debt likely to be incurred. This measure was costed by FaCSIA at $5.9 million over four years and is expected to reduce the level of overpayments by $160.3 million over four years.

Audit finding

2.81 The ANAO found that the FAO has implemented a series of policy and legislative measures in order to address the level of reconciliation and qualification debt in the FTB Programme. Some changes, such as the More Choice for Families initiative and Negotiated Payment Rate measure, afford FTB customers greater choice in receiving FTB payments. Other measures, such as the supplement payments, quarantining FTB Part B, automatic income uplift and maintenance income credit, represent enhancements to the FTB Programme, specifically designed to reduce the likelihood of FTB customers incurring a reconciliation debt.

Conclusion

2.82 Reconciliation debt has been a feature of the FTB Programme since its inception in 2000. Over the course of the programme, the FAO has developed and implemented a range of strategies and measures to successfully reduce the incidence of reconciliation debt for FTB customers. The FAO and ATO websites provide comprehensive information to FTB customers about the programme, along with tools to assist customers accurately estimate their annual income.

2.83 The FAO has directly targeted customers at higher risk of incurring reconciliation debts and provided advice and assistance to those customers. Centrelink's policy of inviting customers, at every contact with the agency, to update their income estimate if appropriate, also helps to reduce the likelihood of customers incurring a debt. In addition, recent changes to the FTB policy and legislative framework have resulted in a range of technical enhancements that should reduce the incidence of reconciliation debt.

3. Debt Raising and Recovery

This chapter examines how FTB debts are identified and raised within Centrelink's Debt Management Information System. It also examines the debt recovery processes managed by Centrelink.

Identification and raising

3.1 Although customers may lodge FTB claims through any of the FAO partners—Centrelink, the ATO or Medicare Australia—and receive FTB payments through Centrelink, the ATO, or a combination of both, the vast majority of FAO debts are managed by Centrelink. The ATO manages one specific class of debt, as described below.

3.2 FaCSIA's *Family Assistance Guide* (the Guide) outlines the FAO's responsibilities in relation to the identification, raising and recovery of Family Assistance debts.

> **FAO responsibilities**
>
> The FAO is responsible for identifying, raising and recovering FA [Family Assistance] debts. The ATO is responsible for recovering tax debts that have occurred when a customer has an income tax shortfall resulting from a reduction in withholdings that over-anticipated their lump sum FTB entitlement.
>
> The ATO will offset an available tax credit (of the customer and/or any consenting person) against any FTB debt to the extent of the credit. Centrelink is responsible for recovering any remaining FTB debt after any tax credit has been applied to the debt.[94]

3.3 Furthermore, the Guide states that overpayments may be identified in the following ways:

> - through the end of year reconciliation process, or
> - by the individual…notifying the FAO that their circumstances have changed, or
> - by compliance activities undertaken by Centrelink or the ATO.[95]

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94 FaCSIA, Family Assistance Guide, section 7.1.1 – FA debts – General Provisions, available from <http://www.facs.gov.au/guides_acts/fag/faguide-7/faguide-7.1/faguide-7.1.1.html> [accessed 17 August 2006].

95 ibid.

Reconciliation debt and the supplements

3.4 The basic premise of the reconciliation process has been described in Chapter 1 of this report. This section describes the process in more detail and introduces the FTB supplement payments.

3.5 The FTB Part A supplement is an ongoing payment, introduced in the 2003–04 financial year. It constituted an increase in the FTB Part A entitlement, which is only payable on reconciliation after the family has lodged all relevant tax returns. Although part of the overall FTB Part A entitlement, the supplement cannot be paid in fortnightly instalments. When introduced, the FTB Part A supplement was paid at a rate of $600 per child. For historical and current rates, see Appendix 3.

3.6 The FTB Part B supplement is an ongoing payment introduced in the 2004–05 financial year. It is also payable only as part of the reconciliation process after tax returns have been lodged. It cannot be paid in fortnightly instalments. Historical and current rates for the FTB Part B supplement are given at Appendix 3. Unlike the FTB Part A supplement, which is paid per child, the Part B supplement is paid per customer—that is, one payment of approximately $300 per annum, per family.

3.7 Both FTB supplements provide some tolerance during reconciliation for those customers who have been overpaid. The supplements are available to all eligible customers.[96] The Guide provides a series of examples of how the FTB Part A and Part B supplements can be used to offset potential overpayments. Figure 3.1 reproduces two of these examples. The overall impact of the supplement payments—on payment outcomes and the FTB debt stock—is discussed in Chapter 4.

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[96] Unlike the one-off $1 000 debt waiver applied to reconciliation debts incurred for the 2000–01 financial year.

Figure 3.1

Example - FTB supplement used to offset overpayment

Marlene gets FTB fortnightly payments for one child during the 2004–05 financial year. The fortnightly entitlement is calculated using Marlene's estimate of $35 000. Marlene lodges her tax return in August 2005 and finds that her income is $36 000. The under-estimate would normally give rise to an overpayment of $200 but the reconciliation calculation now includes an additional $600 amount for the FTB Part A supplement and instead of the $200 overpayment she receives a $400 top-up.

Jane gets FTB Part B only as a fortnightly payment during 2004–05. The fortnightly entitlement is calculated using Jane's estimate of $7 000. Jane lodges her tax return in October 2005 and finds that her actual income is $7 600. Jane underestimated her income by $600. The under-estimate would normally give rise to a reconciliation overpayment of $120. However, the reconciliation calculation factors in the new supplement and instead of the $120 overpayment she would have received, Jane gets a top up of $30.23. This is due to the extra $150.23[Note A] of FTB Part B supplement that was included in the 2004–05 financial year reconciliation.

Note A: The FTB Part B supplement was introduced from 1 January 2005. Accordingly, the amount of FTB Part B supplement payable for the 2004–05 entitlement year was $150.23 reflecting a pro-rata entitlement against the $300 annual rate.

Source: FaCSIA, Family Assistance Guide, section 6.4.1.30 – Reconciliation process, available from <http://www.facs.gov.au/guides_acts/fag/faguide-6/faguide-6.4/faguide-6.4.1/faguide-6.4.1.30.html> [accessed 17 August 2006].

3.8 Once the customer and partner have lodged their tax returns, information on the family's adjusted taxable income for the year is passed from the ATO to the FAO. If the reconciliation process identifies an overpayment, after taking into consideration any supplement payments to which the customer is entitled, a debt shell is raised in Centrelink's Debt Management Information System (DMIS).

3.9 Customers are usually notified in writing of the outcome of the reconciliation process. Certain provisions apply as to how such notification is provided, depending on the timing and result of reconciliation. Where possible, customers are informed of the outcome through a Tax Notice of Assessment, provided by the ATO. Where this is not possible, customers are notified by the FAO—essentially through letters generated by Centrelink's IT systems.

Raising non-lodger debt

3.10 An explanation of how non-lodger debts arise was included in Chapter 1. In summary, if the customer has not responded to reminders and requests for information from the FAO and has not lodged a tax return by

November of the second lodgement year—that is, some 18 months after the end of the year FTB payments were received—the entire amount of FTB payments received in the relevant FTB year is raised as a debt. Customers are notified in writing by the FAO.

3.11 The ANAO's examination of FaCSIA's statistics for non-lodger debt revealed that each year approximately $250 million is raised as non-lodger debt. However, within 12 months of being identified, approximately two thirds of the non-lodger debt for a particular year is removed from the outstanding debt stock.[97]

3.12 This marked reduction in outstanding non-lodger debt occurs as the relevant customers and partners lodge their tax returns or inform Centrelink that they are not required to lodge a tax return. That is, when an identified non-lodger eventually lodges their tax return, or informs Centrelink that they are not required to lodge, their FTB account proceeds to reconciliation and the non-lodger debt is cancelled.[98] The net result is that, each year, approximately $100 million of non-lodger debt is added to the outstanding debt stock.

Treatment of partners and ex-partners

3.13 The identification of reconciliation and non-lodger debt is complicated by the treatment of partners and ex-partners and whether or not they have lodged tax returns. When a customer has a current partner, the Guide states that:

> In instances where the customer and/or their current partner[99] are required to lodge tax returns but have not done so by 31 March of the lodgement year, these customers will be subject to the non-lodger notice process.[100]

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97 A more detailed treatment of non-lodger debt is included in the next chapter of this report.

98 The reconciliation may still result in a debt, nil adjustment or top-up payment to the customer (although supplements and top-up payments can only be made if the tax returns are lodged before the end of the second lodgement year).

99 A **current partne**r is defined as a person with whom the customer was partnered for part of, or for the entire claim period, during the relevant income year AND with whom they were still partnered on 30 June of that year.

An **ex-partner**, for the purposes of reconciliation is a person with whom the customer was partnered for part or all of the entire claim period during the relevant income year but WERE NOT partnered with on 30 June of that year.

Source: FaCSIA, Family Assistance Guide, section 6.4.4.10 – Treatment of current partners under reconciliation, and Section 6.4.4.20 – Treatment of ex-partners under reconciliation, available from <http://www.facs.gov.au/guides_acts/fag/faguide-6/faguide-6.4/faguide-6.4.4/faguide-6.4.4.10.html & ... faguide-6.4.4.20.html> [accessed 17 August 2006].

100 ibid. Section 6.4.4.10.

3.14 In cases where the couple has separated, the Guide indicates:

> If both the customer and their ex-partner are not required to lodge a tax return, reconciliation can occur immediately following the end of the relevant income year provided all the other conditions for reconciliation are met.
>
> If the customer and/or their ex-partner are required to lodge tax returns for the relevant income year, reconciliation can be carried out once all the other conditions for reconciliation are met and:
>
> - their return(s) have been lodged, or
> - the customer only has lodged their return and interim reconciliation can occur (no earlier than 1 November).[101]

3.15 The timing of a couple's separation also impacts on the reconciliation and non-lodger processes. Once again, the Guide indicates that:

> 1. If the customer separates from their partner **during the income year,** reconciliation occurs, whichever is the earlier of the following:
>
> - when the partner lodges their income tax return, or
> - during interim reconciliation in November of the lodgement year, or
> - as soon as the FAO is notified of the date of separation (if the notification comes in the lodgement year).
>
> 2. If the customer separates from their partner **during the lodgement year,** reconciliation occurs, whichever is the earlier of the following:
>
> - when the partner lodges their income tax return, or
> - following the designated date (30 June).
>
> 3. If the customer separates from the partner during the **extended (or second) lodgement year**, reconciliation occurs when the partner lodges their income tax return.[102]

3.16 Importantly, in terms of FTB debt management, Clause 3A of Schedule 3 of the *A New Tax System (Family Assistance) Act 1999* limits the effect of an ex-partner's income on reconciliation to either a top-up or a nil adjustment. It cannot result in a debt for the period(s) that the customer was with their ex-partner. The Guide provides the following example.

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[101] ibid. Section 6.4.4.20.

[102] ibid.

Figure 3.2

Example – effect of ex-partner income

Marge is partnered to Barry from 1 July 2003 to 30 September 2003 and 1 January 2004 to 31 March 2004. Marge received FTB throughout the 2003–04 financial year. Her actual ATI [adjusted taxable income] for the 2003–04 financial year is $10 000 and Barry's is $20 000. For the first period that Marge was partnered to Barry, Marge was entitled to $300 more FTB than she was paid. For the second period she was partnered to Barry, she received $500 more than she was entitled to. Marge's outcome for the periods she was partnered to Barry is a negative adjustment of $200. Marge's reconciliation result for the 2 periods without Barry is a positive adjustment of $100. Her net negative adjustment of $200 for the periods with Barry do not affect her overall reconciliation result which is a top-up of $100.

Source: FaCSIA, Family Assistance Guide, section 6.4.4.20 – Treatment of ex-partners under reconciliation, available from <http://www.facs.gov.au/guides_acts/fag/faguide-6/faguide-6.4/faguide-6.4.4/faguide-6.4.4.20> [accessed 17 August 2006].

Raising qualification debt

3.17 The Guide indicates that FTB overpayments can be raised when there are changes in a customer's eligibility or changes in their circumstances. Furthermore, the Guide indicates that qualification debts should be raised immediately they are identified, and not left until reconciliation.[103]

3.18 At least one debt raising team is located in each of Centrelink's fifteen geographical Areas across Australia.[104] It is the work of the Centrelink debt raising teams to investigate and act on information provided to the FAO about changes in customer circumstance and eligibility, and to raise qualification debts where appropriate. Whenever a debt shell is raised within DMIS, and determined to be a recoverable debt, the customer is informed of the decision in writing.[105]

3.19 Once debts are raised within DMIS, activity moves to the debt recovery teams within Centrelink.

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[103] The Guide states that an overpayment due to eligibility that does not require verification of income details to accurately raise the overpayment should be raised immediately and not left to the reconciliation process. Source: FaCSIA, Family Assistance Guide, section 7.1.1 – FA debts – general provisions, available from <http://www.facs.gov.au/guides_acts/fag/faguide-7/faguide-7.1/faguide-7.1.1.html> [accessed 17 August 2006].

[104] Centrelink operates a network of over 300 Customer Service Centres across Australia. Divided into 15 administrative Areas, these Customer Service Centres are supported by 15 Area Support Offices.

[105] In all cases examined during this audit, when customers were informed that they had incurred an FTB debt, the written communication from the FAO included material on the customer's rights to seek a review of the decision.

Debt recovery

3.20 Centrelink has consolidated work in relation to debt recovery activities and operates a debt recovery network across six centres. The activities of the network are co-ordinated through Centrelink's National Support Office. Each of the six debt recovery centres deals with debts in relation to income support programmes as well as debts associated with the FAO Programme. This audit focussed specifically on the management of FTB debts.

3.21 The six debt recovery centres are structured such that:

- debts above $5 000 are managed in two centres—one located in Melbourne, the other in Brisbane;[106]
- debts under $5 000 are managed across three networked centres at Sydney, Perth and Coffs Harbour; and
- debts incurred by Indigenous customers are managed from a centre in Darwin.

3.22 All staff in debt recovery teams undertake a national debt recovery training package. This is aimed at ensuring consistency of action on the part of the debt recovery staff across Centrelink's network and consistency of outcome for customers incurring FAO debts. In addition to uniform training, debt recovery staff are supported by a number of resources, including written protocols for various work activities, access to electronic reference material and various IT tools such as a suite of 'scripts'.[107]

Audit finding

3.23 The ANAO found that Centrelink's national training package for debt recovery staff and its provision of uniform resource material was designed to achieve a consistent approach to debt recovery within the network. However, the ANAO also noted, during observations in the six debt recovery centres, that scripts were not always used by debt recovery staff. Some staff, usually the more experienced who had been involved in debt recovery activities for some years, continued to manually navigate through screens—although the ANAO did not observe any errors due to manual navigation.

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[106] These two centres also manage the FAO Large Debt Budget Initiative, which targets customers who have FAO reconciliation debts over $3 000 that have remained outstanding for more than 12 months. The management of the FAO Large Debt Budget Initiative is discussed elsewhere in this report.

[107] A script is a computer program which assists a debt recovery staff member to navigate through a series of data screens and activities. They are designed to help the staff member comprehensively complete particular tasks and to ensure correct coding and recording of information.

Standard debt recovery process

3.24 Essentially, the work of the debt recovery teams is to ensure that as many debts as possible are recovered as quickly as possible. Debt recovery staff accomplish this by making contact with the customer and negotiating an arrangement under which the debt is to be repaid. Contact may be via the telephone, letters sent to the customer or a combination of both.

3.25 While this may appear a relatively straightforward process, it can be complicated by a number of factors, including whether the customer is:

- current—that is, in receipt of an ongoing Centrelink benefit payment;
- non-current—no longer in receipt of an ongoing Centrelink benefit payment;
- overseas;
- not able to be located;
- in breach of an existing debt repayment arrangement;
- employed;
- unemployed;
- bankrupt;
- in prison; or
- deceased.

3.26 Centrelink's debt recovery policy and procedures attach specific activities and conditions to the treatment of each of the above cases. For example, if Centrelink is advised and provided with sufficient evidence that a debtor is in custody, an appropriate delegate within the debt recovery team may temporarily write off a debt of up to $5 000, for a maximum period of five years.

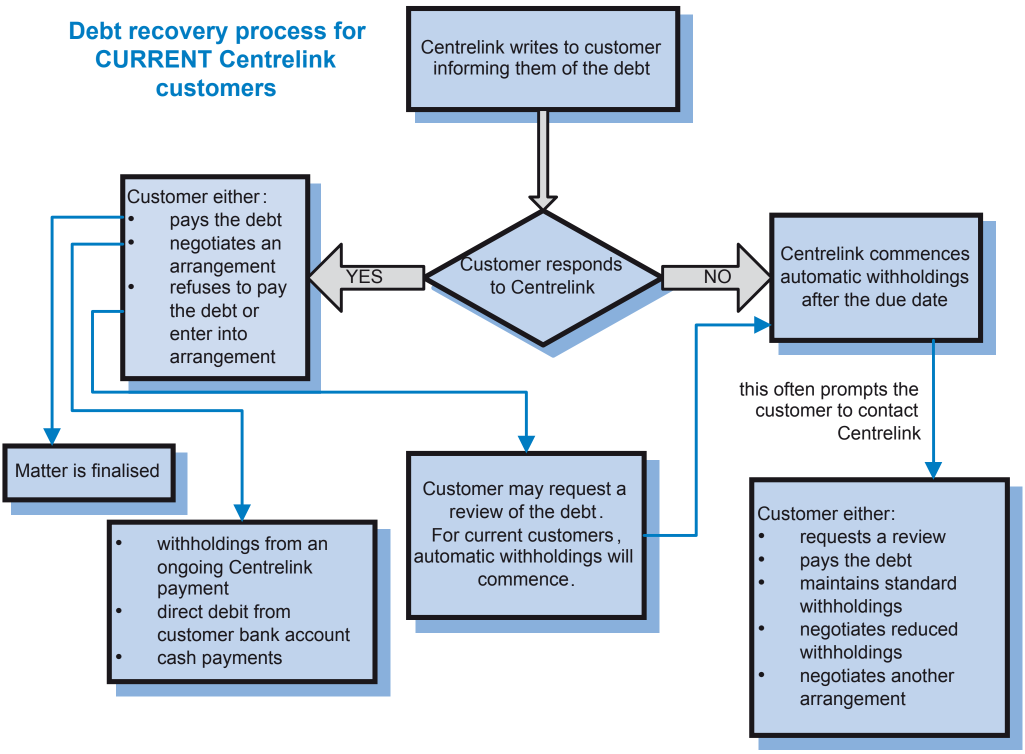
Recovering debts from current customers

3.27 Figure 3.3 illustrates the typical work flow and outcomes for recovering a debt from a current Centrelink customer. Current customers receive an ongoing Centrelink benefit payment and the most straightforward scenario for both the debt recovery team and the customer, is to withhold a portion of that benefit payment, each week or fortnight, in order to pay off the debt over a period of time.

3.28 For example, an FTB Part A customer may have incurred a net reconciliation debt of $1 000 for the 2004–05 financial year, after the application of the FTB Part A supplement and any tax refund offset. The customer has a continuing entitlement to FTB Part A in 2005–06 and qualifies for a fortnightly payment of $325. The customer can agree to have, say, $50 of that payment withheld each fortnight and would, therefore, receive a fortnightly payment of $275. The $50 per fortnight withholding would be set against the debt, and at that rate, would repay the total amount of $1 000 in 20 fortnights. When the debt balance reaches zero, the customer reverts to receiving their full FTB entitlement of $325 per fortnight.

Figure 3.3

Recovering debts from current customers



Source: The ANAO's analysis of Centrelink's debt recovery procedures.

3.29 Standard withholding rates apply to FAO reconciliation debts.[108] As at July 2006 these were:

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[108] Different withholding rates apply to non-lodger and qualification debts. These are:

- for customers receiving the base rate, or less, of FTB Part A (which may or may not include a payment of FTB Part B), 95 per cent of the debtor's entitlement is withheld;

- $30 per fortnight for debts under $750; and
- $60 per fortnight for debts over $750.

3.30 Standard withholding rates also apply to income support debts. For income support debts, generally 14 per cent of the income support entitlement is withheld to repay a customer's debt.[109] The FTB Programme recognises that many Family Assistance debts arise because of a customer's inability to accurately estimate their income, rather than as a direct result of fraud or misinformation. Therefore, Family Assistance debts are treated more generously than income support debts.

3.31 If a customer considers that the standard withholding rates would cause them severe financial hardship, they may apply for a reduced rate of withholdings. Centrelink debt recovery staff then seek comprehensive information and evidence of the customer's financial circumstances and may accept a reduced rate for withholdings, depending on the size of the debt and the customer's capacity to repay the debt.

Recovering debts from non-current customers

3.32 Automatic withholdings cannot be invoked for non-current customers—those who no longer receive a Centrelink benefit payment. Nevertheless, the work of the debt recovery teams in respect of these customers parallels much of that undertaken in respect of current customers. That is, Centrelink attempts to contact the customer and negotiate a mutually acceptable arrangement that will see the debt recovered immediately or within a reasonable period of time.

3.33 When a non-current customer is identified as a debtor and a debt shell is raised within DMIS, Centrelink writes to the customer informing them of the debt. The letter is generated by Centrelink's IT system and is directed to the customer's last known address.

3.34 The letter requests the customer to pay the debt, usually within 28 days, and provides information on how the customer may take advantage of a variety of payment options. If the debt is not paid by the due date, reminder letters are automatically generated. These clearly convey the message that it is important for the customer to pay the debt or contact Centrelink if

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- for customers receiving more than the base rate of FTB Part A (which may or may not include a payment of FTB Part B) 25 per cent of the debtor's entitlement is withheld; and
- for customers receiving FTB Part B only, 95 per cent of entitlement is withheld.

[109] This is the standard rate. It may vary according to customer's circumstances.

they cannot pay the debt. The customer is informed that if they do not contact Centrelink and do not pay the debt, that Centrelink may take action to recover the money. An extract from a typical reminder letter is included below.

> It is important that you phone me if you cannot pay $ [xxx] within 14 days. If you don't, Centrelink may take action to recover this money. To do this Centrelink may:
>
> - garnishee your wages, tax refund, other assets and income (including money you may hold in a bank account);
> - refer your account to a private collection agency; [or]
> - refer your account for legal action.[110]

3.35 If Centrelink is unable to contact the customer, after making reasonable attempts to do so, it may temporarily write off the debt (using the code 'whereabouts unknown') and refer the debt to a Mercantile Agent (a private collection agency) engaged by Centrelink for follow up. Special provisions apply to debt recovery options in cases where the customer becomes bankrupt.

Means of recovering debt

3.36 The Guide provides debt recovery staff with policy direction in relation to the recovery of FTB debts, along with a comprehensive cross-reference to policy statements and relevant provisions of the Family Assistance legislation. In general, recovery action may take one or more of the following forms. Recovery by:

- deductions from the debtor's fortnightly FTB instalments;
- deductions from another (consenting) person's FTB instalments;
- setting off debt against arrears of FTB, Maternity Payment or Maternity Immunisation Allowance owed to the debtor or another consenting person;
- entering into an arrangement with the debtor to repay the debt by instalments (known as a cash arrangement);
- setting off debt against an income tax refund of the debtor or another consenting person;[111]

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[110] Sample Q190 letter. Source: Centrelink debt recovery team, Melbourne. All personal information about the customer had been removed from the letter.

- legal proceedings in a court of competent jurisdiction; or
- garnishee notice issues to an employer, bank or solicitor.

3.37 These recovery methods are employed to varying extents. The overall impact of Centrelink's debt recovery processes on the stock of FTB debt is discussed in the next chapter.

Write offs and waivers

3.38 Section 95 of the *A New Tax System (Family Assistance) (Administration) Act 1999* (the Act) enables the Secretary[112] to write off a debt for a specified period of time, or permanently. When a debt is written off, further action may be taken to recover the debt.[113]

3.39 Sections 96 to 102 of the Act empower the Secretary to waive the Commonwealth's right to recover a debt. When a decision is made to waive a debt or part of a debt, no further recovery action is possible.

The $1 000 waiver of 2001

3.40 Section 102 of the Act allows the Secretary to waive debts or parts of debts that are included in a class of debts specified by ministerial determination. Under the Family Assistance Estimate Tolerance (Transition) Determination 2001 of 3 October 2001 by the then Minister for Family and Community Services, the first $1 000 of certain FTB and Child Care Benefit overpayment amounts for 2000–01 were able to be waived.

3.41 FaCSIA's annual report for 2001–02 indicates that some $359 million of FTB debt was waived and that 591 941 FTB customers benefited from this measure. (Also, see Table 1.4.)

[111] Up to July 2006, a customer's (or other consenting person's) tax refund could only be applied to FTB reconciliation debts arising in the same financial year that the tax return pertained to. From July 2006, tax refunds may be used to offset FTB debts from previous financial years.

[112] The Secretary is defined in the Act as the Secretary to the Department. In this case it is the Department of Families, Community Services and Indigenous Affairs.

[113] As long as recovery action occurs within six years of writing off the debt.

Waiving small debts

3.42 If the net value of a customer's FTB overpayment is less than $50, the debt is automatically waived.[114]

3.43 The Guide states that:

> Debt amounts for FTB determined as a result of reconciliation will be passed onto the ATO for recovery from the customer's income tax refund including where the debt amount is less than $50. If the debt amount is only partially recovered from the income tax refund, the remainder of the debt will be passed back to Centrelink.

3.44 If the remainder of the debt is less than $50, it may be considered not cost effective to raise and recover and may then subsequently be waived. Once again, the Guide provides an example of how this provision works in practice.

Figure 3.4

Example – waiver of small debt

Jane has received FTB by instalment delivery throughout the 2001–02 financial year but has no ongoing entitlement. She has lodged her income tax return and as a result of reconciliation, has a debt of $250.00. Jane has an available tax refund of $210.00. The ATO recovers this amount and returns the result to Centrelink. From this point, Centrelink will waive the recovery of the remaining $40.00 debt.

Source: FaCSIA, Family Assistance Guide, section 7.3.2.30 – Waiving a small debt, available from <http://www.facs.gov.au/guides_acts/fag/faguide-7/faguide-7.3/faguide-7.3.2/faguide-7.3.2.30.html> [accessed 7 July 2006].

[114] The Guide outlines a general provision for debt amounts less than $200. It states that a debt must be waived if it: is, or is likely to be, less than $200, and is not cost effective to recover. This does not apply where the debt: is $50 or more, and can be recovered from: FTB instalments, social security payments, arrears of family assistance, or an income tax refund.

General waiver provisions

3.45 FTB debts may also be waived:

- if the debt arises from administrative error, the person received the payment in good faith and recovery of the debt would cause the debtor severe financial hardship; OR the payment was received in good faith, AND the debt has been raised during whichever of the periods below ends last:
  - after the end of the next income year following the income year in which the eligibility period or event which gave rise to the payment of family assistance, OR
  - more than 13 weeks from the day the family assistance payment was made that gave rise to the debt.
- if the debt arises from an offence and the debtor has received an extended custodial sentence because they are either unwilling or unable to repay the debt;
- in relation to settlements (e.g. through civil action, Administrative Appeals Tribunal and some other circumstances); and
- in special circumstances.[115]

Writing off FTB debt

3.46 An FTB debt may be written off if:

- it is legally irrecoverable, or
- the debtor has no capacity to repay the debt; or
- the whereabouts of the debtor is unknown after reasonable attempts to locate the debtor have been made; or
- it is not cost effective to take action to recover the debt.

3.47 The Guide provides an explanation and advice in relation to each of these criteria, including a cross-reference to the relevant provisions of the

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[115] Special circumstances are a discretionary provision of the *Family Assistance (Administration) Act* that mirrors section 1237AAD of the Social Security Act. Case law decisions made about the Social Security Act provide guidance in making decisions about special circumstances for the purposes of the *Family Assistance (Administration) Act*. Source: *Family Assistance Guide*, section 7.3.2.50 – Waiver in special circumstances, available from <http://www.facs.gov.au/guides_acts/fag/faguide-7/faguide-7.3/faguide-7.3.2/faguide-7.3.2.50.html> [accessed 17 August 2006].

legislation. The value of debts waived and written off, and the overall impact of debt waivers and write offs on the stock of FTB debt, is discussed in the next chapter.

Conclusion

3.48 The ANAO examined Centrelink's debt raising and recovery procedures and observed these in operation in Centrelink's six debt recovery centres and a selection of Customer Service Centres and Call Centres across Australia. The ANAO concluded that Centrelink's debt raising and recovery procedures are consistent with the Family Assistance legislation and noted that these procedures are designed to ensure consistent treatment of FTB debtors across Centrelink's network.

4. Managing the stock of FTB debt

This chapter considers the various factors that impact on the stock of FTB debt—that is, the factors that see debt added to the stock of outstanding debt and those that see debt removed from the stock of outstanding debt. It also examines the FAO's activities to prevent the incidence of new debt and to improve the rate of recovery for existing debt.

The FTB debt stock

4.1 The stock of FTB debt represents a dynamic equilibrium. Amounts are constantly being added to the stock of debt—as customer debt is identified and raised—and other amounts being subtracted from it—as debts are recovered from customers or are otherwise removed from the debt stock.[116]

4.2 Typically, the bulk of reconciliation debts are identified in the first half of each financial year, as customers lodge their tax returns for the previous year(s) and the reconciliation process is conducted. Qualification debt should be raised whenever it is detected, and so the raising of qualification debt is likely to be spread more evenly throughout the year.

4.3 Non-lodger debt is usually raised in the November of the second lodgement year—18 months after the end of the year during which FTB payments were received by the customer.

4.4 Table 4.1 shows the various elements that contribute to adding to (debt on) and subtracting from (debt off) the FTB debt stock, broken down by type of debt. The statistics relate to the period July 2000 to November 2005 (the latest statistics available at the time of preparing this report)—that is almost the entire history of FTB program.

[116] Debts may be waived, temporarily written off, permanently written off or reduced.

Table 4.1

FTB debt on and off — July 2000 to November 2005

	Reconciliation $ 000's	Non-lodger $ 000's	Qualification $ 000's	Total $ 000's
Debt on				
New debt raised	2 314 262	1 608 344	185 013	4 107 619
Determined and waived	351 431	35	11 516	362 982
Returned from write-off	106 851	148 030	23 638	278 519
Debt increased	492 050	1 861	310	494 221
Waiver reversed	386 608	3	113	386 724
Total	**3 651 202**	**1 758 273**	**220 591**	**5 630 066**
Debt off				
Total recoveries (A+B+C)	1 551 552	125 780	124 983	1 802 315
(A) - Withholdings	719 230	117 927	87 007	924 164
(B) - Cash & other	552 842	7 853	37 976	598 671
(C) - ATO tax refund	279 480	0	0	279 480
Debt reduced	765 094	1 003 640	9 326	1 778 060
Debt waived	836 040	140	14 517	850 697
Temporary write-off	146 791	203 811	33 613	384 215
Permanent write-off	3 428	3 702	807	7 937
Total	**3 302 905**	**1 337 073**	**183 246**	**4 823 224**

Source: The ANAO, using FaCSIA, Program Information Report (Quarterly Report) as at December 2005.

Note: Some data classed as 'variations' and 'other' have been omitted from this table. The amounts were considered negligible. Some of the totals may not exactly equal the sum of the components, due to rounding.

In relation to the above table, FaCSIA advised ANAO that:

> [Some] data reflect system transactions. Caution should be used in drawing conclusions about customer or programme outcomes. The re-reconciliation process may artificially inflate some categories, such as 'waiver reversed' and 'debt waived', where previous results are cancelled from the system and new results entered. 'Waivers reversed' includes cases where debts that had been waived were subsequently found not to exist, as well as technical adjustments associated with re-reconciliation processes and the 2000-01 entitlement year waiver.

4.5 Table 4.1 shows that, over the period, a total of $5.63 billion of FTB debt has been raised or added to the debt stock, while $4.82 billion has been recovered, waived or otherwise removed from the debt stock. Examining the 'debt off' section of the table reveals that approximately $1.80 billion has been recovered from customers, while $850.7 million has been waived and

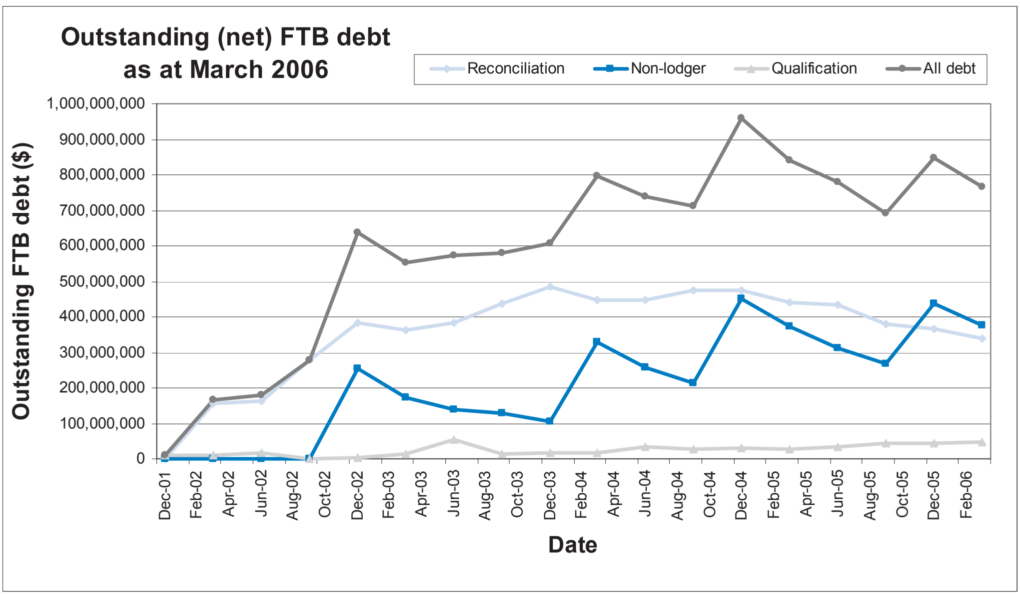
$392.2 million written off. The row of the table showing 'debt reduced' illustrates a particular issue in relation to non-lodger debt.

4.6 Earlier sections of the report describe the non-lodger process—how the debt is raised and the debt notice sent to the customer. If the customer then lodges their tax return, the account can proceed to reconciliation and the non-lodger debt is reduced to zero.[117] The table shows that, although $1.6 billion of non-lodger debt had been raised between July 2000 and November 2005, this amount was reduced by $1 billion, as non-lodgers eventually lodged.

4.7 While Table 4.1, above, shows the total values for FTB debt over the course of the programme to November 2005, Figure 4.1, below, shows the outstanding FTB debt stock—that is, net value (debt on minus debt off)—by quarter, for the period December 2001 to March 2006. The figure shows the contribution of qualification, non-lodger and reconciliation debt to the total FTB debt stock. At March 2006, the total amount of outstanding FTB debt was $765.7 million.

Figure 4.1

Outstanding FTB debt stock – December 2001 to March 2006, by quarter



Source: The ANAO, using FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Spreadsheet - FTB Outstanding Debts.

[117] Upon reconciliation, a previous non-lodger may receive a top-up, nil adjustment or reconciliation debt. If the relevant tax return is lodged later than two years after the end of the entitlement year, the customer is not eligible for a top-up payment or either of the FTB supplement payments.

4.8 As can be seen from the figure, qualification debt contributes the least to the total FTB debt stock—$48 million or 6.3 per cent as at March 2006.

4.9 The pattern of non-lodger debt exhibits a peak around November/December each year[118] when the debt amounts are raised, followed by a sharp decline as people lodge their tax returns (late). However, approximately $100 million of 'apparently genuine' non-lodger debt is added each year. At March 2006, non-lodger debt accounted for $377.3 million or 49.3 per cent of all outstanding FTB debt.

4.10 Reconciliation debt increased to a maximum of $500 million in December 2003, and then steadily declined to a value of $340.4 million at March 2006, accounting for 44.5 per cent of the FTB debt stock at that time.[119]

Audit finding

4.11 The ANAO found that, up until December 2005, reconciliation debt was the major contributor to outstanding FTB debt stock. Figures covering the period December 2005 to March 2006 show that non-lodger debt now accounts for the greatest proportion of FTB debt stock.

FTB debt stock by entitlement year

Reconciliation debt

4.12 Figure 4.1 showed the outstanding FTB debt stock at each quarter from December 2001 to March 2006. The ANAO also analysed the outstanding FTB debts arising from each entitlement year, and how these amounts varied over time.

4.13 Figure 4.2, below, shows reconciliation debt for the five entitlement years 2000–01 through 2004–05. The plot for each entitlement year demonstrates a similar pattern. That is, the total value of the outstanding debt stock increases to a maximum—as the bulk of reconciliations occur soon after the end of the entitlement year—and then steadily decreases as the debts are recovered, waived, written off or reduced.

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[118] The November 2003 identification of non-lodger debt was delayed until March 2004.

[119] The percentage figures in paragraphs 4.8 to 4.10 do not total 100 exactly, due to rounding.

In November 2006, FaCSIA advised the ANAO that the relevant figures, for June 2006, were:
Qualification debt - $50.5 million or 7 per cent of the FTB debt stock;
Reconciliation debt - $331 million or 46.2 per cent of the FTB debt stock; and
Non-lodger debt - $336 million or 46.8 per cent of the FTB debt stock.

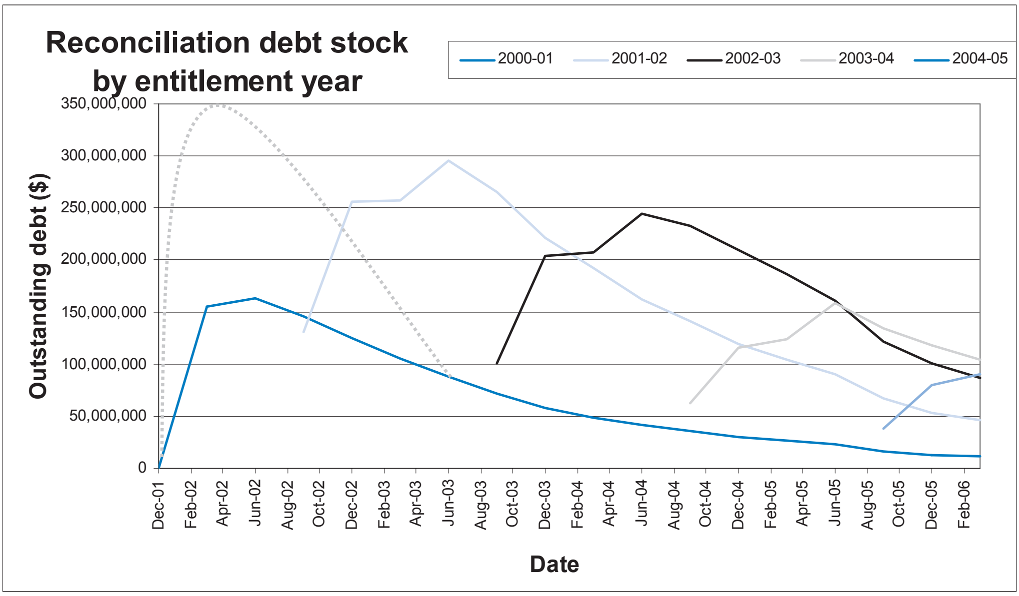
4.14 For example, the plot for reconciliation debt incurred for the 2001–02 entitlement year illustrates that:

- about $131 million (net) was identified in the first three months following the end of the entitlement year;
- this increased to a maximum of $296 million (net) by the end of the lodgement year;[120] and
- the value steadily decreased from that point, to leave an amount still outstanding, at March 2006, of just over $46 million.

4.15 The dotted line attached to the plot for 2000–01 gives an indication of approximately where the 2000–01 debt stock would have been before the introduction of the one-off $1 000 waiver. The purpose of including this line is simply to show that the peak value of outstanding FTB reconciliation debt has steadily decreased over the period of the five entitlement years.

Figure 4.2

Reconciliation debt stock by individual FTB entitlement year



Source: The ANAO, using FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Spreadsheet - FTB Outstanding Debts.

[120] These are figures for reconciliation debt outstanding at each quarter. So while the maximum value, at June 2003, shows $296 million outstanding for reconciliation debt from the 2001–02 entitlement year, actual (reconciliation) overpayments for that entitlement year were $653 million. See Table 1.4.

Audit finding

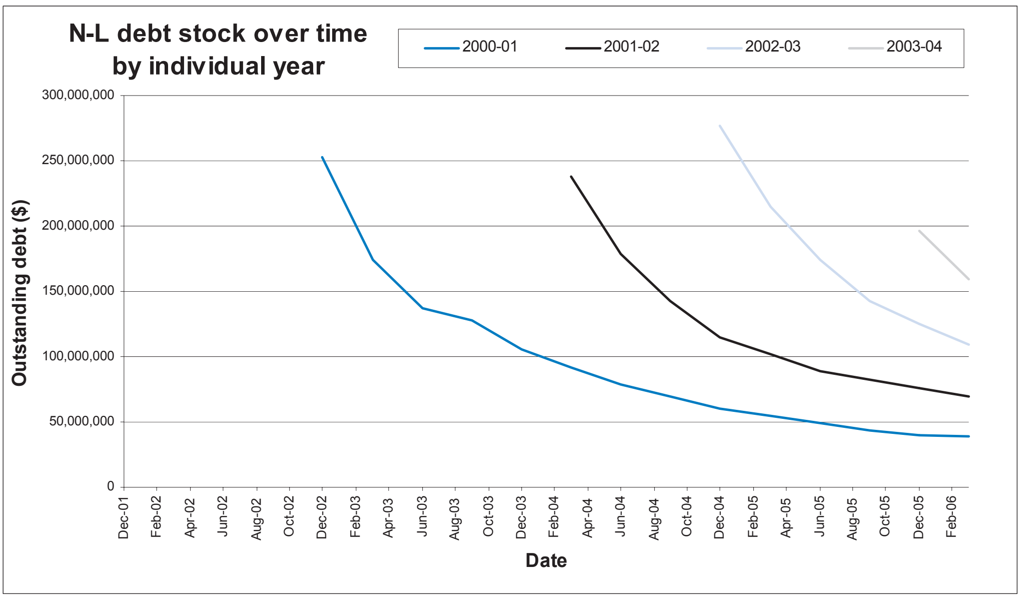
4.16 The ANAO found that the peak value of outstanding reconciliation debt, in respect of each FTB entitlement year, has steadily decreased over the five entitlement years 2000–01 through 2004–05.

Non-lodger debt

4.17 Figure 4.3 shows outstanding non-lodger debt for the four entitlement years 2000–01 through 2003–04. Non-lodger debt is usually identified and raised in the November of the second lodgement year. Therefore, virtually all non-lodger debt for a particular entitlement year is identified and raised at a single point in time. The various plots in Figure 4.3 show that the value of non-lodger debt decreases fairly sharply from the initial maximum, and then decreases more gradually over time. The sharp decrease is most likely due to a large number of non-lodger debts being reduced as customers and partners lodge their tax returns. The steady decrease is more closely associated with the recovery of the debts through withholdings and cash arrangements.

Figure 4.3

Non-lodger debt stock by individual FTB entitlement year



Source: The ANAO, using FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Spreadsheet - FTB Outstanding Debts.

Audit finding

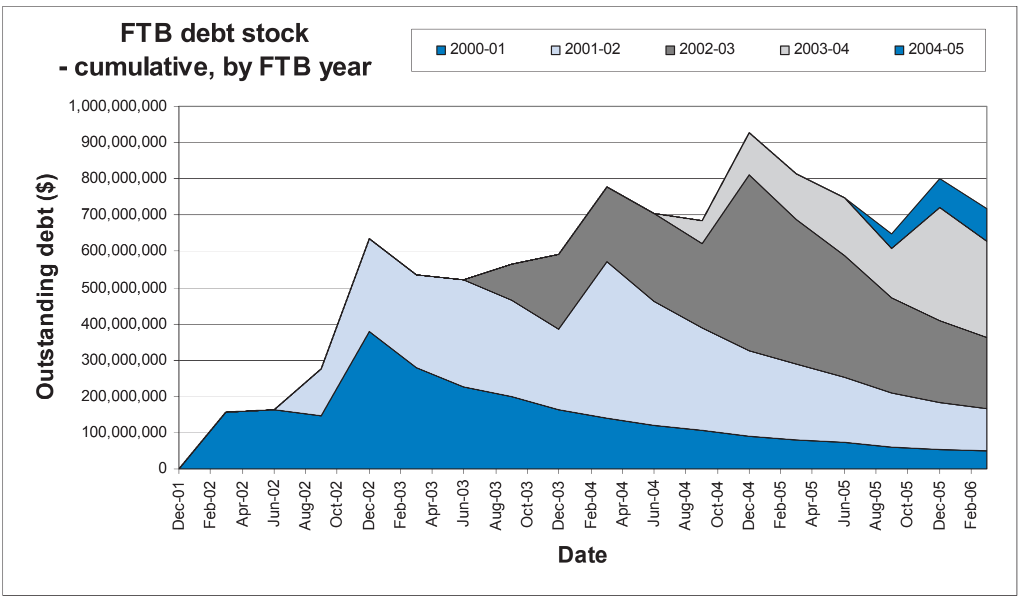
4.18 The ANAO found that, unlike the trend evident with reconciliation debts—where the peak value of outstanding debt has declined each year—the value of non-lodger debts outstanding in respect of each FTB entitlement year, is reasonably stable, over the four entitlement years 2000–01 through 2003–04.

Combined effect by entitlement year

4.19 Figure 4.4, below, combines the concept of illustrating total outstanding FTB debt stock and the contribution of debt associated with individual entitlement years. The overall shape of the graph parallels that for the plot of total outstanding FTB debt shown in Figure 4.1, however, the contribution of outstanding debt for each entitlement year is illustrated. The plot for each entitlement year displays two peaks—the first associated with the identification of reconciliation debt, the second, with the identification of non-lodger debt.

Figure 4.4

Contribution of each entitlement year's net debt value to the total outstanding FTB debt stock



Source: The ANAO, using FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Spreadsheet - FTB Outstanding Debts.

Audit finding

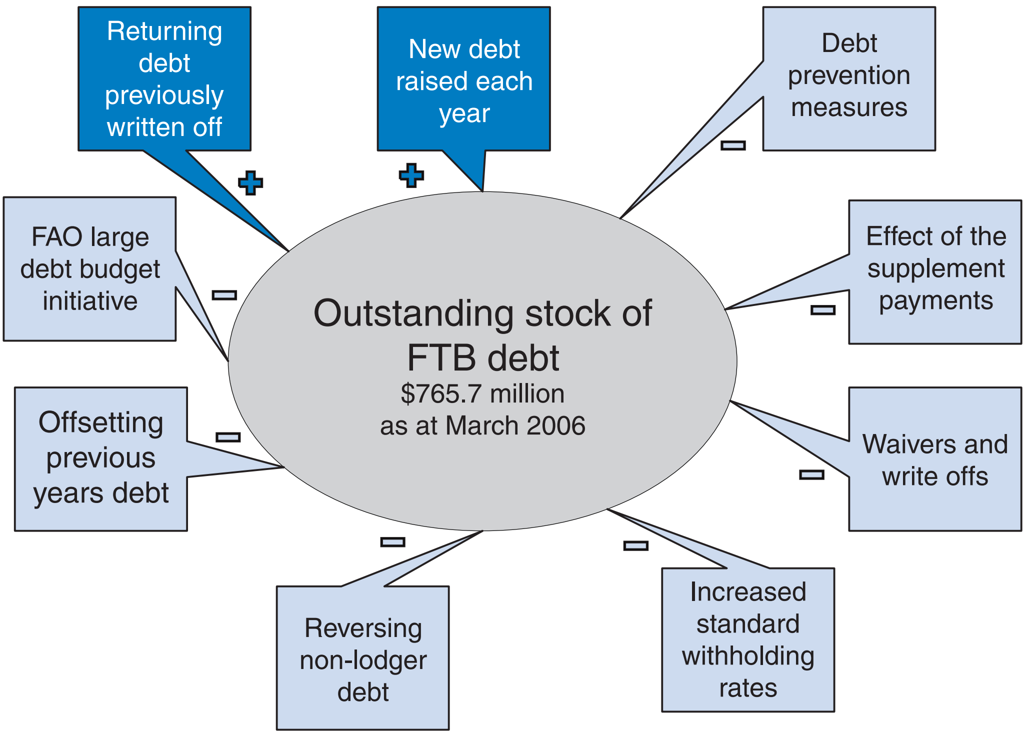
4.20 The ANAO found that over the period March 2004 to March 2006[121] the outstanding stock of FTB debt has oscillated within the range of approximately $700 million to $900 million.

Factors influencing the size of the FTB debt stock

4.21 In simple terms, the dynamic equilibrium of the stock of FTB debt is controlled by two variables—the amount of new debt added to the stock and the amount of existing debt removed from the stock. Figure 4.5 shows the major factors impacting on the management of FTB debt and the following sections in this chapter examine the effects of these variables.

Figure 4.5

Factors influencing the size of the FTB debt stock



Source: The ANAO.

[121] The most recent two years for which mature statistics are available.

Reducing the incidence of new debt

New debt raised each year

4.22 The previous discussion of trends in relation to reconciliation debt noted a significant reduction in the number of customers incurring a reconciliation debt—down from around 33 per cent of the FTB population in the early years of the programme to less than 10 per cent in the most recent year. The value of reconciliation debts raised each year also demonstrates a marked reduction over the course of the programme.

4.23 Although the number of non-lodgers identified each year is less than the number of customers incurring a reconciliation debt, as at December 2005, the total value of outstanding non-lodger debt was greater than the total value of outstanding reconciliation debt. The value and incidence of qualification debt is low, compared to reconciliation and non-lodger debt.

Impact of prevention strategies and measures

4.24 The FAO's debt prevention strategies and measures were discussed in Chapter 2 of this report. Some of the more recent measures—those of the 2005–06 Budget—include costings and projected reductions in the incidence of FTB debt. Other prevention activities—such as improved information and communication with customers—are more difficult to cost or to quantify a likely dollar impact on the FTB debt stock. However, through FaCSIA's close monitoring of overall programme performance, trends in the incidence of certain types of FTB debt are evident.

Impact to date

4.25 As noted in Chapters 1 and 2, the incidence of customers incurring a reconciliation debt has decreased from around 33 per cent of the FTB population in 2000–01 to 10 per cent in 2003–04, and seven per cent in 2004–05.[122] Also, the value of reconciliation debt added to the debt stock in recent years has decreased from between $500 million and $600 million per annum, to approximately $130 million per annum.[123] Much of this decrease is due to the introduction of the FTB Part A and Part B supplement payments.

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[122] Statistics for 2004–05 are based on the number of customers reconciled as at September 2005 and are likely to further mature. The ANAO's analysis of previous years' 'maturity patterns' indicates that the value will increase slightly—from seven per cent to somewhere between eight and nine per cent.

[123] See Table 1.4.

Audit finding

4.26 The ANAO found that the FAO's focus on the prevention of reconciliation debt has been successful in reducing the percentage of FTB customers incurring a reconciliation debt from approximately 33 per cent of the population during the first two years of the programme, to under 10 per cent of the population in the most recent two years. In addition, the ANAO found that the value of reconciliation debt added to the debt stock each year has significantly decreased.

Anticipated impact of 2005–06 budget measures

4.27 Table 4.2 summarises information contained in Budget Paper No.2 of the 2005–06 Federal Budget, as it pertains to FTB debt management.

Table 4.2

Summary of cost and anticipated debt reductions from 2005–06 Budget

Measure	Cost (over four years)	Anticipated reduction in FTB debt (over four years)
Negotiated payment option	$5.9 million	$160.3 million
AFRO project	$8.5 million (over three years)	Not stated
Automatic uplift of estimates	$18.6 million	$115.2 million
Increased recovery rates & FAO large debt initiative	$11.4 million	$135.3 million
Maintenance income credit	$54.8 million	$41.6 million
Offsetting previous year debts	$4.7 million	$47.1 million
Total	**$103.9 million**	**$499.5 million**

Source: Budget Paper No. 2, 2005–06. Available from the Federal Government's Budget website: <http://www.budget.gov.au/2005–06/bp2/html/expense-11.htm> [accessed 20 July 2006].

Audit finding

4.28 While this audit did not examine, in any great detail, FaCSIA's costings of these Budget measures, the ANAO notes the expected reduction in FTB debt over the next four years.

Effect of the supplement payments

4.29 The introduction of the FTB Part A and FTB Part B supplements has been described elsewhere in this report. Appendix 3 provides further detail, including the rates of payment since introduction.

4.30 The supplements only come into play at reconciliation—customers must lodge their tax returns[124] and have their FTB payments reconciled before they can receive any supplement payments. Therefore the supplements would not be expected to have a direct effect on non-lodger debt, as these customers have not yet lodged a tax return for the relevant income year.

4.31 However, FaCSIA informed the ANAO that the introduction of the supplement payments could act as an incentive for customers to lodge tax returns. For example, if a non-lodger lodges a tax return within two years of the end of the FTB entitlement year, they will then receive the supplement payment(s)—their account is reconciled, and the supplements may be used to offset a reconciliation debt for that customer.

4.32 Customers forgo their entitlement to supplement payments—and any top-up payment arising from reconciliation—if they do not lodge a tax return within two years of the end of the FTB entitlement year. The fact that a customer forfeits their supplement payment under these circumstances, may also act as an incentive for customers to lodge tax returns.

4.33 The following section of this report examines the effect of the supplement payments on the incidence of customer debt—in particular, reconciliation debt. The comparison presented in Table 4.3 uses FaCSIA statistics on the payment outcomes for customers, before and after the application of the FTB Part A supplement, in its first year of operation.

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[124] Or advise FAO of the fact that they are not required to lodge a tax return in respect of that entitlement year.

Table 4.3

Effect of FTB Part A supplement on payment outcomes 2003–04

2003–04	With FTB A Supplement	Without FTB A Supplement
Overpayments		
Customer Number	213 960	562 604
% of Total Customer Number	10%	27%
Total Amount	$258m	$499m
Average Amount	$1 205	$888
Nil Change		
Customer Number	104 894	803 793
% of Total Customer Number	5%	39%
Top-ups		
Customer Number	1 768 575	721 032
% of Total Customer Number	85%	35%
Total Amount	$2 485m	$736m
Average Amount	$1 405	$1 022
TOTAL		
Customer Number	**2 087 429**	**2 087 429**

Source: FaCSIA, Program Information Report (Quarterly Report) as at September 2005. Section 5.3 Reconciliation outcomes with/without FTB A Supplement.

4.34 The FTB Part A supplement of $600 per child, first introduced in 2003–04, brought about a reduction in the percentage of customers with an overpayment from 27 per cent to 10 per cent. It also brought about an increase in the percentage of customers who received a top-up payment, from 35 per cent to 85 per cent.

4.35 The FTB Part B supplement, of $300 per family, was introduced in 2004–05. Table 4.4 shows the effect of both supplements on payment outcomes for that year.[125]

[125] The right hand column shows figures excluding Part A supplement only. Therefore, the figures include the effect of the Part B supplement. FaCSIA's statistics (at 30 September 2005) do not isolate the impact of the Part B supplement alone.

Table 4.4

Effect of FTB Part A & B supplements on payment outcomes 2004–05

2004–05	Including effect of both FTB A & FTB B Supplements	Excluding effect of FTB A Supplement
Overpayments		
Customer Number	62 540	180 213
% of Total Customer Number	5%	15%
Total Amount	$63m	$144m
Average Amount	$1 008	$799
Nil Change		
Customer Number	40 810	123 433
% of Total Customer Number	3%	10%
Top-ups		
Customer Number	1 080 441	880 145
% of Total Customer Number	91%	74%
Total Amount	$1 647m	$540m
Average Amount	$1 524	$614
TOTAL		
Customer Number	**1 183 791**	**1 183 791**

Source: FaCSIA, Program Information Report (Quarterly Report) as at September 2005. Section 5.3 Reconciliation outcomes with/without FTB A Supplement.

4.36 Table 4.4 shows that the supplement payments have reduced overpayments from 15 per cent of the FTB population to five per cent, for the 2004–05 FTB entitlement year, while top-ups increased from 74 per cent to 91 per cent.

4.37 An examination of the average value of overpayments and top-ups also suggests that the supplements are most effective in reducing smaller debt amounts—as the average value of overpayments increases after the application of the supplement.

4.38 The ANAO requested, from FaCSIA, further statistics on the application of the FTB Part A supplement—in particular, an indication of how much of the value of the supplement was used to offset overpayments for individual customers. FaCSIA provided a detailed breakdown of the notional and final payment outcomes—that is, before and after the FTB Part A supplement—for customers reconciled as at 30 March 2006, for the 2004–05 entitlement year.

4.39 Table 4.5 presents an extract from those statistics. The full set of statistics is at Appendix 4. Figures in the table refer to 283 110 customers who had an overpayment identified **before** the application of the $613.20 per child FTB Part A supplement, for the 2004–05 entitlement year, as reconciled at 30 March 2006.

4.40 The centre three columns show the number of customers with a debt, nil adjustment or a top-up **after** the application of the supplement. Therefore, the 'total' row shows that of the 283 110 customers who initially had an overpayment, 92 712 customers still had an overpayment after the application of the supplement; 76 customers saw the supplement offset the overpayment exactly;[126] and 190 322 customers received a top-up after the application of the supplement.

4.41 The rows of the table show how much of the customers' supplement payment was used to offset the debt. For example, the third row of the table shows that 6 094 customers were entitled to a supplement payment between $1 000 and $1 100.[127] Some 1 504 customers used their entire supplement to offset an overpayment. Nevertheless, they still had a residual overpayment. While two customers had an initial debt in the $1 000 to $1 100 range, their supplement payment cancelled that debt exactly. For 4 588 customers, the outcome was that part of their supplement was used to offset a debt less than $1 000 and the remaining amount of their supplement was paid as a top-up.

[126] To the nearest dollar.

[127] Supplement payments are not always a strict multiple of $613.20. Some customers may have had an FTB entitlement for only part of the year. Other customers share the care of their children with ex-partners, and therefore only receive a proportion of the supplement (consistent with their proportion of care).

Table 4.5

Customers with debt offset by FTB A supplement, in $100 bands of supplement use (extract) — 2004–05 entitlement year, customers reconciled as at 30 March 2006.

Deduction of FTB A Supplement used to offset a debt	Debtors	Nil Change	Top up	Total
More than -1,300 to -1,200	18 544	2	2 080	20 626
More than -1,200 to -1,100	1 313	4	3 744	5 061
More than -1,100 to -1,000	1 504	2	4 588	6 094
More than -1,000 to -900	1 655	-	5 065	6 720
More than -900 to -800	1 583	2	6 020	7 605
More than -800 to -700	2 523	13	7 208	9 744
More than -700 to -600	22 983	6	8 714	31 703
More than -600 to -500	4 033	5	12 645	16 683
More than -500 to -400	4 170	3	15 154	19 327
More than -400 to -300	4 977	7	18 158	23 142
More than -300 to -200	5 074	6	23 183	28 263
More than -200 to < -100	5 738	8	29 804	35 550
-100 to less than 0	7 327	15	46 621	53 963
TOTAL (see note below)	**92 712**	**76**	**190 322**	**283 110**

Source: FaCSIA

Note: This is an extract from a larger table. The value of the totals in this table do not reflect the sum of values in the columns shown here, but rather the total of columns in the entire table. See Appendix 4 for the entire data set. People with debt or nil change may not have a full multiple of the supplement to offset their debt as they could have received a pro-rata supplement based on a part-year entitlement or have a child for whom care was shared.

4.42 The data in Appendix 4 display a modal distribution for the number of debtors after the application of the supplement. That is, values peak at each multiple of the supplement payment—22 983 in the $600 - $700 band; 18 544 in the $1 200 - $1 300 band and so on. These values roughly equate with the number of children per family, and therefore, a multiple of the FTB Part A supplement value.

Audit finding

4.43 The ANAO found that the introduction of the FTB Part A supplement in 2003–04 and the FTB Part B supplement in 2004–05 markedly reduced the number of FTB customers who incurred a reconciliation debt—from 27 per cent to 10 per cent in 2003–04, and from 15 per cent to five per cent in 2004–05.

4.44 The ANAO also found that, of those customers who had a notional overpayment before the application of the supplement, for approximately one third[128] their entire supplement was used to offset the debt, yet they still experienced a residual debt. Conversely, about two thirds of customers who had a notional debt used only part of their supplement to offset the debt and received the remainder of the supplement as a top-up.

Debt returned from write off

4.45 As noted previously, a decision to write off a debt does not limit future action to recover the debt. Some debts that have been written off may be returned to an 'active status' for a variety of reasons. Returning a debt from write off essentially reinstates a status under which the debt is capable of being recovered.

4.46 For example, Centrelink debt recovery teams may have no reliable information on the whereabouts of a debtor for some time. Then, through the matching of data obtained from the ATO about people submitting a new Tax Declaration Form (when they commence employment with a new employer), Centrelink may be able to reliably identify the person in question, contact the person and negotiate a cash repayment arrangement or garnishee the person's wages. The debt, previously written off, is returned to the stock of outstanding debt and recovery action is recorded against the DMIS record.

4.47 Table 4.1 showed that, over the course of the programme to November 2005, some $278.5 million off FTB debt had been returned from write-off. FaCSIA maintains statistics of the amount of FTB debt returned from write off each month, for a rolling 12 month period. The ANAO examined the statistics for the 12 month period from October 2004 to September 2005.[129] The analysis revealed that a total of $127.75 million of FTB debt was returned from write off during that 12 month period. This was made up of $70.472 million in non-lodger debt; $48.485 million in reconciliation debt; and $8.793 million in qualification debt.

[128] From the total row in Table 4.5: 92 712 ÷ 283 110 x 100 = 32.75 %.

[129] These were the most recent statistics available at the time of preparing this report.

Audit finding

4.48 The ANAO found that, in a recent 12 month period,[130] up to $130 million of FTB debt was returned from write off to the outstanding debt stock as debt now capable of being recovered.

Reversing waivers

4.49 Table 4.1 indicates that one way in which debt may be added to the FTB debt stock is 'waiver reversed'. The table indicates that, over the course of the programme to November 2005, waiver reversals accounted for $386.7 million. However, the ANAO noted that the *Family Assistance Guide* states:

> For the purposes of FA [Family Assistance], the Secretary may waive the Commonwealth's right to recover the whole or part of a debt under certain circumstances. For the purposes of this definition, waive means that the Secretary deliberately gives up the right to recover a debt. A decision to waive a debt CANNOT be changed at a later date.[131]

4.50 Centrelink advised the ANAO that Centrelink's operating procedures allow for waivers to be reversed under certain circumstances. For example, where a debt was initially assessed as not cost effective to recover—less than $50—and automatically waived, upon re-reconciliation the debt may have increased to $120—that is, above the $50 automatic waiver limit. The entire debt is then recoverable and, therefore, the initial decision to waive the debt is reversed. Centrelink's procedures also permit the reversal of a waiver if the debt was waived in error.

4.51 FaCSIA also advised the ANAO that some of the waiver reversals included in Table 4.1 reflect system transactions. For example, a customer may have a debt waived following an initial reconciliation. However, if a re-reconciliation is required, the customer may actually receive a top-up as a result of that re-reconciliation. In such a case, the initial result is cancelled (including the reversal of the debt waiver) and the second result recorded. The FAO IT system maintains a record of all transactions—the initial result, the cancellation and the subsequent result. Also, see the notes at Table 4.1.

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[130] Statistics for October 2004 to September 2005 were the latest available at the time of preparing this report.

[131] FaCSIA, Family Assistance Guide, section 1.1.W.10 – Waive (definition), available from <http://www.facs.gov.au/guides_acts/fag/faguide-1/faguide-1.1/faguide-1.1.w/faguide-1.1.w.10.html> [accessed 7 September 2006].

Audit finding

4.52 The ANAO found that, in relation to the reversal of waivers, the FAO's written policy and the debt recovery network's practice were inconsistent. The ANAO encourages the FAO to resolve the inconsistency.

Reducing the debt stock

Waivers and write offs

4.53 The operation of waivers and write offs was discussed in the previous chapter. Table 4.1 showed that, over the course of the programme to November 2005, some $850 million off FTB debt had been waived and $392 million written off. Within the 12 month period October 2004 to September 2005 just over $56 million of FTB debt was waived, $3.5 million permanently written off and $148 million temporarily written off.

4.54 Comparing the amount of debt returned from write off with that written off—for the 12 month period October 2004 to September 2005—reveals that approximately $151.5 million was written off and $130 million returned from write off, leaving a net effect of reducing the debt stock by approximately $20 million for that 12 month period.

Managing non-lodger debt

4.55 The non-lodger process has been described previously in this report. The graphs of outstanding non-lodger debt for each entitlement year, (Figure 4.3) show a sharp decrease immediately following the raising of non-lodger debt each November. Through discussions with debt recovery staff in each of Centrelink's six debt recovery centres, the ANAO formed the opinion that, despite numerous reminders, for many non-lodgers it is only when they are presented with a debt notice that they are sufficiently motivated to lodge their tax return or inform Centrelink that they are not required to lodge a tax return, for the financial year in question.

4.56 This situation generates significant additional administrative workload for debt recovery teams. The debt shells must be raised within DMIS, letters sent to the non-lodger customers, attempts made to contact those customers and negotiate an arrangement to repay the debt. When the customer eventually lodges a tax return,[132] the non-lodger debt must be reversed, the

[132] Or the customer may inform Centrelink that they are not required to lodge a tax return for the year in question.

account reconciled and a new payment outcome—reconciliation debt, nil adjustment or top-up—actioned.

4.57 In the 12 month period October 2004 to September 2005, $484 million of new non-lodger debt was raised. During the same period non-lodger debt was reduced by $380 million. That is, Centrelink debt recovery staff were required to reverse over 75 per cent of non-lodger debt in that period. The administrative workload associated with these activities could have been avoided if the customers had lodged tax returns within the required time frame. Although the ANAO attempted to identify the costs associated with this additional administrative workload, details of resource allocation, at that level, were not available.

4.58 Nevertheless, the non-lodger process is a necessary feature of the administration of FTB debt because, each year, a proportion of non-lodger debt remains as 'genuine' debt. Over $39 million of non-lodger debt arising from the 2000–01 FTB years remained outstanding at March 2006—that is, almost five years after the end of the FTB year in question. Over $69 million remained outstanding from the 2001–02 FTB year and $109 million from the 2002–03 FTB year, as at March 2006.[133]

4.59 Debt recovery teams in Centrelink work to place these debts under arrangement. For example, over $46 million of non-lodger debt was recovered through withholdings from ongoing fortnightly FTB payments during the period October 2004 to September 2005. To further add to the administrative workload of debt recovery teams, any amount of non-lodger debt repaid by customers must be refunded to those customers, if they eventually lodge a tax return.[134]

4.60 The statistics maintained by the FAO, and in particular FaCSIA, enable the tracking of activity through the entire non-lodger process. Between 45 000 and 60 000 FTB customers each year fail to lodge a tax return, or inform Centrelink of their exemption from doing so within the required time frame.

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[133] In the Closing Audit Report for the 2005–06 Financial Statement audit of the Department of Families, Community Services and Indigenous Affairs, ANAO noted that: 'The FTB Receivable balance appears to be overstated by a maximum of $50m. We are satisfied that the overstatement is not material.' The Closing Audit Report also noted that: 'FaCSIA recognises the entire number of non-lodgers as debtors at the moment Centrelink sends reminder letters. Based on the analyses done by the performance audit (i.e. this audit), this category of debtors appears to be overstated each year by some $120m to $150m. It was noted that the actuary review of the provision for doubtful debts had taken account of much of the non-lodgers debt, as a result it is considered that the net overstatement does not exceed $50 million.'

[134] A refund would be due to the customer if their debt repayments had exceeded any debt identified as a result of reconciliation following lodgement.

Of particular concern are the customers who have not lodged tax returns for a number of years. FaCSIA's research shows that the most significant predictor of whether a customer is likely to be a non-lodger is their lodgement history. Approximately 47 per cent of customers not lodging tax returns for 2003–04 had at least one non-lodgement in the three prior tax years. According to the research:

> A customer who had not lodged in 2000–01 had a 45 per cent likelihood of not lodging in 2003–04, increasing to 63 per cent if not having lodged in 2001–02, and 73 per cent if they had not lodged in 2002–03.[135]

4.61 The ANAO requested, and Centrelink provided, statistics on customers with multiple non-lodger debts. The statistics were current as at 30 June 2006. At that time there were four entitlement years for which non-lodger debt had been identified—those being 2000–01 to 2003–04.

Table 4.6

Customers with multiple non-lodger debts

Category	No. of customers
Customers with two non-lodger debts	14 201
Customers with three non-lodger debts	6 219
Customers with four non-lodger debts	5 699
Total	**26 119**

Note: Multiple non-lodger debts may not necessarily occur in consecutive years.

Source: Centrelink, DMIS report, Number of customers with 2, 3, 4 or more non-lodger debts as at 30 June 2006.

4.62 The figures at Table 4.6 reveal that, within the 26 119 customers who have incurred multiple non-lodger debts, 5 699 customers have never submitted a tax return for any of the four years in which they received FTB.[136]

4.63 Customers can continue to receive fortnightly FTB payments, even though they have not lodged tax returns for a number of years and, as a result incurred non-lodger debts for some of those years. For current customers, the

135 FaCSIA, Internal research, *Results from additional investigation into non-lodgers for 2003–04 using Superstar reconciliation database as at 30/12/2005.* p. 1.

136 It is theoretically possible that some of these customers may have submitted a tax return for the 2004–05 entitlement year ONLY, as non-lodger debts for that year had not been raised as at 30 June 2006. However, given FaCSIA's research on customers' lodgement history and their increasing probability of non-lodgement following two, three or four previous non-lodgements, the ANAO considers it unlikely that a significant number of these customers would have lodged for 2004–05.

standard rate of withholding is different for non-lodger debt.[137] For customers with a non-lodger debt, on the base rate of FTB Part A, 95 per cent of their entitlement is withheld and offset against their debt. For customers above the base rate, 25 per cent of their entitlement is withheld.[138]

4.64 The ANAO found that despite the higher standard withholding rates applied to non-lodger debtors, these customers may accumulate FTB debt at a significant rate—far greater than the majority of customers incurring reconciliation debts.

4.65 The hypothetical scenario, below, illustrates how non-lodger debt may accrue for a serial non-lodger family. Consider a family with two children, aged thirteen years, and an estimated annual family income of $29 000. The family applied for FTB Part A and commenced receiving fortnightly payments in July 2000. Consider also that this family had not lodged tax returns, nor had the customer notified Centrelink that they were not required to lodge tax returns. The payment and debt profile for this family is illustrated in the following figure.[139]

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[137] See earlier discussion of standard withholding rates of $30 or $60 per fortnight, for reconciliation debts, at paragraph 3.29.

[138] Customers may, and many do, seek a reduced amount of withholdings if they believe the standard rate causes them financial hardship.

[139] Amounts used in this example are approximate, and based on historical rates for FTB Part A – taken from Family Assistance Guide, section 3.6.1 – Historical rates FTB A, available from <http://www.facs.gov.au/guides_acts/fag/faguide-3/faguide-3.6/faguide-3.6.1.html> [accessed 17 August 2006].

Figure 4.6

Example of how a customer may accumulate serial non-lodger debts

July 2000	Customer receives full entitlement of $294 per f/n or $7 644 per annum for the 2000-01 entitlement year
June 2001	
July 2001	Customer receives full entitlement of $311 per f/n or $8 086 per annum for the 2001-02 entitlement year
June 2002	
July 2002	Customer receives full entitlement of $322 per f/n until
Nov 02	Non-lodger debt of $7 644 is raised for 2000-01
	Withholdings commence. Customer receives $322 - $80.50 = $241.50 per f/n
June 2003	Customer has repaid $1 046 of debt. Still owes $6 598
July 2003	Customer receives $331 - $83 withholdings = $248 per f/n
Nov 03	Non-lodger debt of $8 086 is raised for 2001-02. Customer now owes $6 598 + $8 086 - $830 (repaid between July 2003 and November 2003) = $13 854
June 2004	
July 2004	Customer receives $339 - $85 withholdings = $254 per f/n
Nov 04	Non-lodger debt of $7 325 is raised for 2002-03. Customer now owes $13 854 + $7 325 - $2 184 (repaid between November 2003 and November 2004) = $18 995

It will take the customer 3.5 years to repay the 2000-01 non-lodger debt at a rate of $85 per f/n. Meanwhile, the customer is accumulating debt at a rate of about $7 000 to $8 000 each year.

Source: The ANAO – using historical payment rates for FTB Part A and standard non-lodger withholdings of 25 per cent of entitlement (above the FTB A base rate).

4.66 Given that:

- non-lodger debt is now the greatest contributor to the FTB debt stock;
- unlike the trend observed with reconciliation debt, the amount of 'genuine' non-lodger[140] debt raised each year is relatively stable;
- managing 'non-genuine' non-lodger debt[141] causes an unnecessary increase in administrative workload for debt recovery staff;
- serial non-lodgers can accrue very large debts in a relatively short time;
- the size of individual non-lodger debts tends to be much greater than the size of individual reconciliation debts; and
- FTB customers have an obligation to lodge tax returns or inform Centrelink that they are not required to lodge tax returns, in order to substantiate their eligibility for FTB payments,

the ANAO proposes the following recommendation.

Recommendation No.2

4.67 The ANAO recommends that, building on the success of the strategies used to reduce reconciliation debt, the FAO develops and implements a customer awareness raising strategy and/or administrative measures, specifically targeted at reducing the incidence of non-lodger debt.

Agency responses

4.68 All agencies involved in this audit agreed with the recommendation. A full account of agency responses is included at Appendix 5.

The FAO large debt initiative

4.69 The FAO large debt Budget initiative was introduced as a measure in the 2005–06 Federal Budget and commenced in January 2006. The initiative was targeted at customers repaying FAO reconciliation debts that were greater than $3 000 in value and more than 12 months old. The objective was to negotiate a revised repayment schedule, consistent with the customer's capacity to pay, that would hopefully see the debt repaid within 12 months.

[140] That is, the residual amount of non-lodger debt remaining after customers identified as non-lodgers lodge their tax returns late.

[141] That is, the amount of non-lodger debt initially raised that must be reversed when customers (identified as non-lodgers in the November following the lodgement year) lodge their tax returns.

4.70 The FAO used a service profiling tool to identify customers in the target group. The primary characteristics were:

> Customers with an outstanding debt [from]:
>
> - Family Tax Benefit or Child Care Benefit reconciliation; [where]
> - the outstanding debt must be determined;
> - the total balance of all reconciliation debts for the customer is greater than $3 000;
> - the date of determination of the earliest debt is greater than 12 months ago.[142]

4.71 The FAO planned to contact 13 900 customers during the first six months of the initiative. The first customers contacted were those with the greatest perceived capacity to pay. These were current customers with a relatively high income (using the most recent ATO data) and a single FAO reconciliation debt[143]. Three months into the initiative, the FAO planned to contact customers that were non-current and/or had multiple reconciliation debts.

4.72 Two FAO large debt teams were established—one in Brisbane, the other in Melbourne—and uniform protocols for customer contact developed. In essence, this was a straightforward process. Selected customers were sent a letter explaining the initiative and seeking payment of the outstanding debt. Some customers paid the debt in full, upon receipt of the letter. Failing a response to the letter, the FAO large debt team members contacted customers by telephone with a view to re-negotiating a repayment arrangement. The FAO carefully monitored the initiative's progress and maintained detailed statistics of customer contacts and outcomes.

4.73 For example, Table 4.7 relates to the work of the Brisbane FAO large debt team for the months of April and May 2006. The table shows the number of customers contacted and the total value of debt owed by those customers. It also shows the total value of the fortnightly repayments (if any) before contact, and the total value of new fortnightly payments negotiated with the FAO large debt team. The difference between these two values illustrates the increase in fortnightly payments achieved by the Brisbane team for each month. The final

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[142] Centrelink, 2005, *Detailed Business Requirement Statement – Major Release, Amendment R03387*, Centrelink, Canberra.

[143] At 17 February 2006, there were 96 023 customers in this service profile category.

column shows the total amount of lump-sum payments and debts repaid in full, as a result of contact by the FAO large debt team.

Table 4.7

Monthly statistics for the FAO large debt team - Brisbane

Month	No. of customers contacted	Value of debt	Original fortnightly repayment	New fortnightly repayment	Increase in fortnightly repayment	Value of lump sum or payments in full
April	1 541	$9 464 641	$49 586	$89 641	$40 055	$357 774
May	1 245	$6 884 659	$42 561	$84 665	$42 104	$154 032

Source: Brisbane FAO Large Debt Team Monthly Call Stats Reports for April and May 2006.

4.74 The statistics show that, within two months, the Brisbane FAO large debt team recovered over half a million dollars in long-term, outstanding FTB debt, and increased fortnightly repayments by over $80 000. This outcome was achieved by contacting 2 786 customers, identified through service profiling.

4.75 By 19 May 2006, between them, the FAO large debt teams in Brisbane and Melbourne had completed the re-negotiation process with 6 733 customers. This represents around 48 per cent of the overall target of 13 900 contacts that the FAO had planned for the first six months of the initiative. In addition, the FAO large debt teams had commenced, but not completed, the process with another 4 717 customers.

4.76 Table 4.8 illustrates the impact, thus far, of the FAO large debt initiative. It compares debt recovery information for a group of customers for the period January to June in 2005 and the same period in 2006. That is, it shows debt recovery behaviour for the same customer group, for a comparable period, before and after the implementation of the initiative.

Table 4.8

Impact of the FAO large debt initiative

Type of contact	Period	Number of recoveries	Amount recovered
After letter but before phone contact	Jan-Jun 2005	40 257	$2 012 979.65
	Jan-Jun 2006	42 195	$4 367 122.21
Increase from period last year		**1 938**	**$2 354 142.56**
After phone contact	Jan-Jun 2005	56 617	$2 998 599.34
	Jan-Jun 2006	56 659	$9 804 824.48
Increase from period last year		**42**	**$6 806 225.14**

Source: FAO report – Customers with large FAO debts who have had an intervention as at 30 June 2006.

4.77 The FAO large debt initiative, in conjunction with a second Budget measure to increase the standard rate of withholdings for FAO debts, (see below) received $2.8 million of funding for the 2005–06 financial year. The FAO large debt teams have increased recoveries by $9.16 million, over six months, resulting in a net saving to the Government of approximately $6.36 million.

Audit finding

4.78 The ANAO found that the FAO large debt initiative has been successful in almost doubling the average fortnightly debt recovery rate, for the customer group involved, and has reduced outstanding FTB debt by over $9 million in six months.

Increased withholding rates

4.79 A number of other measures to improve FTB debt recovery were introduced as part of the Federal Budget for 2005–06. One such measure was the automatic increase of the standard withholding rates for recovery of reconciliation debts. From 1 July 2006, the standard withholding rate for reconciliation debts under $750 was increased from $20 per fortnight to $30 per fortnight and for debts over $750 from $40 per fortnight to $60 per fortnight.

4.80 Together with the FAO large debt initiative (see above), the FAO expects that the increased withholding rates measure will cost $11.4 million over four years and reduce the level of outstanding FTB debt by $135.3 million over the same period.[144]

Audit finding

4.81 At the time of conducting this audit, no definitive information was available as to the success of the increased withholding rates measure. However, the ANAO shares the FAO's view that this measure, in conjunction with other measures (see below), should have a positive influence on reducing the stock of FTB debt.

Recovering debts incurred in previous years

Effect of supplement on debt recovery

4.82 As well as offsetting potential overpayments in the current reconciliation year, a customer's FTB supplement(s) may now also be used to offset debt incurred in previous years.[145] For example, a customer may have a debt pertaining to the 2003–04 FTB entitlement year and be repaying that debt through an arrangement that withholds a portion of their 2004–05 FTB instalments. Yet, upon reconciliation of the 2004–05 FTB year, the customer may be entitled to receive either the entire supplement amount or a proportion of the supplement. The value of that supplement payment may be offset against the debt amount outstanding from 2003–04. Table 4.9 shows the results, as at December 2005, of applying the FTB supplements as part of the 2004–05 reconciliation year, to debts incurred in previous years.

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[144] Source: Budget Paper No. 2 2005–06 – Expense measures Family and Community Services, available from <http://www.budget.gov.au/2005–06/bp2/html/expense-11.htm> [accessed 17 August 2006].

[145] The FTB Part A supplement of $600 per child was introduced in 2003–04, and the FTB Part B supplement of $300 per family was introduced in 2004–05.

Table 4.9

Amount of supplement used to offset prior year FTB debts.[A]

Recovered From	FTB A supplement			FTB B supplement		
Debt year[B]	Total recovery	No. of debts	Av. debt	Total recovery	No. of debts	Av. debt
2001	$3 631 360	4 875	$744.89	$191 903	1 527	$125.67
2002	$10 310 351	14 799	$696.69	$563 091	4 445	$126.68
2003	$17 600 349	29 171	$603.35	$993 860	8 009	$124.09
2004	$12 516 592	24 790	$504.90	$928 263	7 796	$119.07
2005	$94 292 988	230 293	$409.45	$4 059 795	33 741	$120.32
TOTAL	**$138 351 642**	**303 928**	**$455.21**	**$6 736 914**	**55 518**	**$121.35**

Note A: From 1 July 2005 the FAO has been able to use any supplement payments a customer may be entitled to, in order to recover prior years' FTB debts.

Note B: Entitlement year to which the debt relates.

Source: FaCSIA, Program Information Report (Quarterly Report) as at December 2005. Section 5.4.

4.83 Table 4.9 shows that over $138 million of outstanding FTB debt was recovered by offsetting the FTB Part A supplement for 303 928 customers, as part of the reconciliation process for 2004–05. In addition, another $6.7 million of FTB debt stock was recovered by offsetting the FTB Part B supplement for 55 518 customers. Furthermore, FaCSIA's historical statistics indicate that up to $4.6 million of FTB debt relating to 2001, 2002 and 2003 was recovered by offsetting the FTB Part A supplement as part of the 2003–04 reconciliation year.

Audit finding

4.84 The ANAO found that offsetting previous year's FTB debts against any remaining FTB supplement payments, after considering the payment outcome for the current reconciliation year, has a positive effect on reducing the stock of outstanding FTB debt.

Using top-ups and tax refunds to offset previous years debt

4.85 Under a 2005–06 Budget measure, commencing from 1 July 2006, a customer's tax refund and reconciliation top-up payments will now be used to offset FTB debts incurred in previous years. Up until this time, tax refunds and top-up payments were only able to be set against debts incurred in the year of reconciliation. The FAO has costed the administration of this measure at

$4.7 million over four years and expects to reduce the FTB debt stock by $47.1 million over four years.

Audit finding

4.86 At the time of conducting this audit, no definitive information was available as to the success of this measure. However, the ANAO expects a similar impact from this measure as to that achieved by applying any remaining portion of a customer's supplement payment to debts incurred in previous years.

4.87 Therefore, the ANAO considers that applying available tax refunds and top-up payments to previous years' FTB debt should have a positive influence on reducing the stock of FTB debt.

Debt recovery time frames

Lump sum repayments versus fortnightly repayments

4.88 The rate at which debt is recovered impacts on the total outstanding stock of FTB debt. The ANAO requested, and Centrelink provided, a series of reports drawn from DMIS, which illustrate aspects of the time frame within which FTB debt is recovered.

4.89 Table 4.10, below, compares the number of customers who repay their FTB debt in a lump sum with those who choose the fortnightly repayment option. The value of debt repaid, for each category, is also shown. These are summary statistics covering the FTB Programme to June 2006.

Table 4.10

Lump sum and fortnightly repayments over the course of the FTB Programme

Debt type	Lump sum repayments:		Fortnightly repayments:	
	Value	No. customers	Value	No. customers
Reconciliation	$271 884 354	382 369	$801 609 761	686 672
Non-lodger	$4 888 992	3 530	$49 772 204	20 459
Qualification	$18 769 710	85 993	$70 751 384	218 869
Total	$295 543 056	471 892	$992 133 350	926 000

Source: Centrelink, DMIS reports – Number and value of FTB debts repaid as a lump sum, and Number and value of FTB debts repaid as fortnightly payments, as at 30 June 2006.

Note: The figures for fortnightly repayments include debts that had at least one fortnightly repayment recorded on DMIS. The figures for lump sum payments refer to debts that were repaid **in full** by one lump sum payment only. Consequently, the total value for repayments shown above ($295.5m + $992.3m = $1.29b) falls short of the $1.83 billion shown in Table 4.1. The difference of $600 million involves debts that were repaid by more than one lump sum, weekly payments, monthly payments, irregular payments or a combination of lump sum(s) and other payments.

The total for fortnightly repayments varies from the sum of the three values in the column, due to rounding.

4.90 Table 4.10 shows that the ratio of customers repaying debts fortnightly to those repaying as a lump sum is approximately 2:1.[146] However, the table also reveals that the ratio of the value of FTB debt recovered fortnightly to that recovered in lump sum payment is 3.4:1.[147] Further analysis shows that, for reconciliation debt, the ratio of debt under fortnightly repayments to lump sum is about 3:1, while for non-lodger debt the ratio is about 10:1.

4.91 A lump sum repayment has the effect of removing the value of the debt from the outstanding FTB debt stock immediately. Whereas, the outstanding debt stock is reduced more slowly by customers on fortnightly instalments.

Audit finding

4.92 The ANAO found that, with ten times as much non-lodger debt under fortnightly repayments as compared to lump sum repayments, a large proportion of non-lodger debt is likely to remain part of the FTB debt stock for some time. For reconciliation debt, with only three times as much under fortnightly repayments as compared to lump sum repayments, a smaller proportion of this type of debt is likely to remain part of the debt stock for some time.

146 926 000 ÷ 471 892 = 1.96

147 $992 133 350 ÷ $295 543 056 = 3.36

4.93 In addition, the ANAO notes that the FAO large debt initiative, described earlier, does not currently target customers with non-lodger debts—the initiative targets reconciliation debts only. Given the apparent success of that initiative, the FAO may wish to consider extending the selection of customers to include those non-lodgers with debts over $3 000 and 12 months old.

Time taken to repay debt

4.94 The ANAO also requested, and Centrelink provided, DMIS data extracts showing how quickly customers repaid FTB debts. Table 4.11 shows the value of repayments and number of customers repaying debts within 12 months, 24 months, 36 months and longer than 36 months. The following analysis uses Centrelink's debt repayment information for the 2001–02 FTB entitlement year, and also FaCSIA's information on outstanding FTB debt.

Table 4.11

Time taken to repay 2001–02 reconciliation debts

Time frame for repayment	Value of debt repaid	% of total repayments (% of recoverable debt)	No. of customers
Within 12 months	$246 380 495	42.1 (39.1)	391 995
Within 24 months	$165 794 961	28.4 (26.3)	125 995
Within 36 months	$111 149 717	19.0 (17.6)	56 657
In more than 36 months	$61 386 424	10.5 (9.7)	54 861
Total repayments	**$584 711 596**	100.0 (92.7)	**629 508**

Source: Centrelink, DMIS reports – Number and value of FTB debts repaid within 12 month, two years, three years and over, as at 30 June 2006. Some total values may not equal the sum of components exactly, due to rounding.

4.95 Table 4.11 shows that $584.7 million of 2001–02 reconciliation debt had been repaid, as at June 2006. FaCSIA's statistics for outstanding reconciliation debt for 2001–02, as at March 2006 (see Figure 4.2) indicates that $46.2 million remained outstanding at that time.[148] Therefore, approximately 93 per cent[149] of recoverable[150] 2001–02 reconciliation debt had been recovered by June 2006.

4.96 Table 4.11 also shows that 42.1 per cent of total repayments (or 39.1 per cent of recoverable 2001–02 reconciliation debt) was received by Centrelink within 12 months. Furthermore, 70.5 (65.3) per cent of repayments was received within 24 months and 89.5 (83) per cent of payments was received within 36 months. Four years after the end of the 2001–02 FTB year approximately seven per cent of recoverable reconciliation debt remains outstanding.

4.97 A different pattern is evident in the repayment profile for non-lodger debts. Table 4.12 illustrates statistics for non-lodger debts incurred for the 2001–02 FTB entitlement year, although the repayment history only extends over three years.

Table 4.12

Time taken to repay 2001–02 non-lodger debts

Time frame for repayment	Value of debt repaid	% of total repayments (% of recoverable debt)	No. of customers
Within 12 months	$5 136 780	25.8 (5.8)	3 427
Within 24 months	$10 680 994	53.6 (12.0)	4 447
Within 36 months	$4 113 330	20.6 (4.6)	1 447
In more than 36 months	—	—	—
Total repayments	**$19 931 104**	100.0 (22.3)	**9 321**

Source: Centrelink, DMIS reports – Number and value of FTB debts repaid within 12 month, two years, three years and over, as at 30 June 2006. Some total values may not equal the sum of components exactly, due to rounding.

4.98 Table 4.12 shows that $19.9 million of 2001–02 non-lodger debt had been repaid, as at June 2006. FaCSIA's statistics for outstanding non-lodger debt for 2001–02, as at March 2006 (see Figure 4.3) indicates that $69.5 million

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148 The ANAO recognises that the dates are three months apart. However, these were the most recent figures available at the time of preparing the report, and for the purpose of the following analysis, we have ignored this small discrepancy.

149 584 711 596 ÷ (584 711 596 + 46 150 126) x 100 = 92.68%.

150 The word 'recoverable' is used here to represent the sum of debt already recovered plus debt still outstanding. The ANAO acknowledges that the amount of debt recovered may be reduced, by the value of any future refunds to customers, and that the value of debt outstanding may vary due to write-offs, waivers, debt increased or decreased and returned from write-off.

remained outstanding at that time. Therefore, approximately 22.3 per cent[151] of recoverable 2001–02 non-lodger debt had been recovered by June 2006.

4.99 Table 4.12 also shows that 25.8 per cent of total repayments (or 5.8 per cent of recoverable 2001–02 non-lodger debt) was received by Centrelink within 12 months. And 79.4 (17.8) per cent of repayments was received within 24 months. Three years after the end of the 2001–02 FTB year approximately 77.7 per cent of recoverable non-lodger debt remains outstanding.

4.100 The ANAO performed a similar analysis for debt associated with the 2002–03 FTB year. This revealed that 84 per cent of recoverable reconciliation debt was repaid within three years and 11 per cent of recoverable non-lodger debt was repaid within two years. Therefore, three years after the end of the 2002–03 FTB year, 16 per cent of recoverable reconciliation debt and 89 per cent of recoverable non-lodger debt remains outstanding.

Audit finding

4.101 The ANAO found that, for two FTB years with reasonably mature statistics:

- at least 80 per cent of recoverable reconciliation debt was recovered within three years; and
- less than 20 per cent of recoverable non-lodger debt was recovered within three years.[152]

4.102 Therefore, non-lodger debt is likely to remain within the outstanding FTB debt stock for longer than reconciliation debt. The ANAO also found that, at March 2006, outstanding non-lodger debt accounted for $377.3 million—or 49.3 per cent of all FTB debt—while outstanding reconciliation debt was $340.4 million—or 44.5 per cent of all FTB debt. In addition, December 2005 saw a turning point where, for the first time in the history of the FTB Programme, non-lodger debt accounted for a greater proportion of the outstanding FTB debt stock than did reconciliation debt.

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[151] 19 931 104 ÷ (19 931 104 + 69 474 632) x 100 = 22.29%.

[152] The ANAO acknowledges that non-lodger debts are not raised at the same time as reconciliation debts. Also, for 2001–02 non-lodger debts were raised later than usual—in January 2004 rather than November 2003. This means that, at November 2006, there was not a full three years of debt repayment history in respect of 2001–02 non-lodger debts.

4.103 Given that:

- non-lodger debt takes longer to recover than reconciliation debt;
- non-lodger debt demonstrates a steady growth in the proportion contributed to the outstanding debt stock; and
- reconciliation debt demonstrates a steady decline in the proportion contributed to the outstanding debt stock;

the ANAO reiterates the importance of the FAO building on the success of policy and administrative measures that have proved successful in reducing reconciliation debt, to bring a strong focus on the prevention of non-lodger debt. (See Recommendation 2 earlier in this chapter).

Conclusion

4.104 At an early stage in the implementation of the FTB Programme, the FAO recognised that, each year, some customers would be overpaid and incur FTB reconciliation debts. The FAO also recognised that a reconciliation debt would generally be perceived by customers as a negative outcome for their family.

4.105 The $1 000 Estimate Tolerance (Transition) debt waiver of 2001, to a large extent, mitigated the negative impact of reconciliation debts incurred in 2000–01. In this measure, some $359 million of FTB debt was waived, benefiting 591 941 FTB customers. Yet, in the second year of operation, 707 233 FTB customers incurred a total of $653 million in debts. These early experiences highlighted the need for the FAO to better manage customer payment outcomes within the FTB Programme.

4.106 The FAO has implemented a range of measures, some through changes to legislation, others of an administrative nature, to successfully reduce the incidence of reconciliation debt to manageable levels. The FAO has also recently implemented a range of measures to improve debt recovery rates, although the impact of these may take some time to emerge.

4.107 However, the FAO has not adequately addressed the matter of non-lodger debt, which is now assuming greater significance in the FTB debt stock profile. In particular, the FAO is not adequately managing the risk of continuing to pay FTB to customers who have not lodged tax returns for a number of years, and therefore, have not demonstrated their entitlement to FTB over that time.

Ian McPhee
Auditor-General

Canberra ACT
28 November 2006

Appendices

Appendix 1: FTB customers

Table A 1

Time series - FTB customer numbers

Year/ Payment type	Fortnightly instalments	ATO lump sum	Centrelink lump sum	ATO lump sum & Centrelink lump sum	ATO lump sum & instalments	Centrelink lump sum & instalments	ATO & Centrelink lump sum & instalments	Total
2000–01								
Part A only	562 427	45 010	15 174	61	3 588	5 435	24	631 719
Part B only	32 994	11 437	2 722	5	211	632	1	48 002
Parts A and B	1 252 988	34 167	15 035	165	4 904	8 575	34	1 315 868
Total	**1 848 409**	**90 614**	**32 931**	**231**	**8 703**	**14 642**	**59**	**1 995 589**
2001–02								
Part A only	558 802	46 684	16 713	63	4 647	10 234	29	637 172
Part B only	31 901	11 378	3 308	7	229	898	0	47 721
Parts A and B	1 288 987	33 258	17 587	129	4 133	17 401	48	1 361 543
Total	**1 879 690**	**91 320**	**37 608**	**199**	**9 009**	**28 533**	**77**	**2 046 436**

Year/ Payment type	Fortnightly instalments	ATO lump sum	Centrelink lump sum	ATO lump sum & Centrelink lump sum	ATO lump sum & instalments	Centrelink lump sum & instalments	ATO & Centrelink lump sum & instalments	Total
2002–03								
Part A only	535 506	57 092	24 870	94	6 258	11 140	39	634 999
Part B only	32 158	13 647	3 906	7	364	761	0	50 843
Parts A and B	1 289 372	38 942	23 310	168	4 749	15 938	48	1 372 527
Total	**1 857 036**	**109 681**	**52 086**	**269**	**11 371**	**27 839**	**87**	**2 058 369**
2003–04								
Part A only	538 222	65 704	20 601	66	3 300	3 793	9	631 695
Part B only	28 649	11 744	2 954	0	128	198	0	43 673
Parts A and B	1 276 858	36 058	21 047	111	2 958	7 726	20	1 344 778
Total	**1 843 729**	**113 506**	**44 602**	**177**	**6 386**	**11 717**	**29**	**2 020 146**

Year/ Payment type	Fortnightly instalments	ATO lump sum	Centrelink lump sum	ATO lump sum & Centrelink lump sum	ATO lump sum & instalments	Centrelink lump sum & instalments	ATO & Centrelink lump sum & instalments	Total
2004–05								
Part A only	164 611	21 683	1 853	4	845	297	1	189 294
Part B only	10 597	4 467	546	0	71	18	1	15 700
Parts A and B	938 758	14 636	4 841	17	875	1 506	2	960 635
Total	**1 113 966**	**40 786**	**7 240**	**21**	**1 791**	**1 821**	**4**	**1 165 629**

Source: FaCSIA, Program Information Report (Quarterly Report) as at September 2005. Section 2.2 All customers - Time series FTB Payments.

The numbers above refer to the number of FTB customers reconciled for the particular FTB entitlement year. For 2004–05, they include only those customers reconciled as at 30 September 2005 and, therefore, represent the number of customers reconciled in the first quarter of the lodgement year for the 2004–05 entitlement year. The total number of FTB customers reported for any given entitlement year is lower than the equivalent statistic reported in FaCSIA's relevant annual report. This is because the numbers above relate to reconciled customers. The numbers in annual reports refer to the number of people who, at any time during the entitlement year, receive FTB payments. Not all of those people proceeded to reconciliation, nor were they all paid for the entire year.

Appendix 2: More Choice for Families

Table A 2

More Choice for Families - Payment choices

Choice	Description
Choice 1	The customer receives the BASE RATE of FTB Part A and ALL of their FTB Part B entitlement as FORTNIGHTLY PAYMENTS. They are assessed for any further entitlement to FTB Part A after the end of the income (financial) year.
Choice 2	The customer receives ALL of their FTB Part A entitlement, excluding the FTB Part A supplement (including rent assistance (RA) if entitled), as FORTNIGHTLY PAYMENTS. They are assessed for any entitlement to FTB Part B after the end of the income (financial) year.
Choice 3	The customer receives the BASE RATE of FTB Part A as FORTNIGHTLY PAYMENTS. They are assessed for any further entitlement to FTB Part A and FTB Part B after the end of the income (financial) year.
Choice 4	The customer receives ALL of their FTB PART B entitlement as FORTNIGHTLY PAYMENTS. They are assessed for any entitlement to FTB Part A after the end of the income (financial) year.
Choice 5	The customer receives ALL of their FTB PART A, excluding the FTB Part A supplement (including RA if entitled) and FTB PART B entitlement, AS FORTNIGHTLY PAYMENTS.
Choice 6	The customer receives ALL of their FTB PART A and FTB PART B entitlement AFTER THE END OF THE INCOME (FINANCIAL) YEAR. They do not receive any fortnightly payments of FTB during the income (financial) year. They may still receive fortnightly payments of RA (if entitled) if they choose.
Choice 7	When the customer is unsure whether any of their dependent children aged 16 or older, or dependent non-students aged 5 to 15, will earn more than $11,233 for the financial year, they can be assessed for any entitlement to FTB AFTER THE END OF THE INCOME (FINANCIAL) YEAR.

Source: FaCSIA, Family Assistance Guide, section 4.3.1.20, available from <http://www.facs.gov.au/guides_acts/fag/faguide-4/faguide-4.3/faguide-4.3.1/faguide-4.3.1.20.html> [accessed 24 July 2006].

Appendix 3: FTB Supplements – historical rates

1. The FTB Part A supplement is a per child payment that was introduced for the 2003–04 financial year and is payable at the end of a financial year after reconciliation has occurred. It is a component of the maximum and base rates of FTB Part A although it cannot be paid fortnightly.

Table A 3

FTB Part A historical rates for supplement paid per child

Date payable from	FTB Part A supplement
1/7/2003	$600.00
1/7/2004	$613.20
1/7/2005	$627.80
1/7/2006	$646.05

Source: FaCSIA, Family Assistance Guide, section 3.6.1 – FTB Part A historical rates, available from <http://www.facs.gov.au/guides_acts/fag/faguide-3/faguide-3.6/faguide-3.6.1.html> [accessed 7 July 2006].

2. The FTB Part B supplement is a per customer payment that was introduced for the 2004–05 financial year and is payable at the end of a financial year after reconciliation has occurred. It is a component of the maximum rate of FTB Part B, although it cannot be paid fortnightly.

Table A 4

FTB Part B historical rates for supplement paid per family

Date payable from	FTB Part B supplement
1/7/2004 [Introduced 1 Jan 2005]	$302.95 [$150.23 payable 1 Jan – 30 Jun 2005]
1/7/2005	$306.60
1/7/2006	$313.90

Source: FaCSIA, Family Assistance Guide, section 3.6.3 – FTB Part B historical rates, available from <http://www.facs.gov.au/guides_acts/fag/faguide-3/faguide-3.6/faguide-3.6.3.html> [accessed 7 July 2006].

Appendix 4: Use of the FTB A Supplement to offset debt

Table A 5

Customers with debt offset by FTB A supplement, in $100 bands of supplement use — 2004–05 entitlement year, reconciled as at 30/3/2006.

Deduction of FTB A Supplement used to offset a debt	Debtors	Nil Change	Top up	Total
More than -5 200 to -5 100	1	-	-	1
More than -5 100 to -5 000	1	-	1	2
More than -5 000 to -4 900	1	-	-	1
More than -4 900 to -4 800	0	-	-	0
More than -4 800 to -4 700	1	-	1	2
More than -4 700 to -4 600	0	-	1	1
More than -4 600 to -4 500	0	-	-	0
More than -4 500 to -4 400	0	-	-	0
More than -4 400 to -4 300	1	-	-	1
More than -4 300 to -4 200	4	-	1	5
More than -4 200 to -4 100	1	-	2	3
More than -4 100 to -4 000	1	-	-	1
More than -4 000 to -3 900	3	-	3	6
More than -3 900 to -3 800	0	-	-	0
More than -3 800 to -3 700	2	-	2	4
More than -3 700 to -3 600	**39**	-	8	47
More than -3 600 to -3 500	4	-	3	7
More than -3 500 to -3 400	7	-	2	9
More than -3 400 to -3 300	5	-	3	8
More than -3 300 to -3 200	5	-	2	7
More than -3 200 to -3 100	5	-	5	10
More than -3 100 to -3 000	**223**	-	16	239
More than -3 000 to -2 900	22	-	22	44
More than -2 900 to -2 800	20	-	20	40
More than -2 800 to -2 700	16	-	23	39
More than -2 700 to -2 600	23	-	34	57
More than -2 600 to -2 500	32	-	31	63

Deduction of FTB A Supplement used to offset a debt	Debtors	Nil Change	Top up	Total
More than -2 500 to -2 400	**1 482**	1	88	1 571
More than -2 400 to -2 300	71	-	159	230
More than -2 300 to -2 200	106	-	197	303
More than -2 200 to -2 100	94	-	193	287
More than -2 100 to -2 000	100	-	205	305
More than -2 000 to -1 900	127	-	232	359
More than -1 900 to -1 800	**6 726**	1	476	7 203
More than -1 800 to -1 700	348	1	906	1 255
More than -1 700 to -1 600	364	-	985	1 349
More than -1 600 to -1 500	465	-	1 114	1 579
More than -1 500 to -1 400	467	-	1 267	1 734
More than -1 400 to -1 300	521	-	1 336	1 857
More than -1 300 to -1 200	**18 544**	2	2 080	20 626
More than -1 200 to -1 100	1 313	4	3 744	5 061
More than -1 100 to -1 000	1 504	2	4 588	6 094
More than -1 000 to -900	1 655	-	5 065	6 720
More than -900 to -800	1 583	2	6 020	7 605
More than -800 to -700	2 523	13	7 208	9 744
More than -700 to -600	**22 983**	6	8 714	31 703
More than -600 to -500	4 033	5	12 645	16 683
More than -500 to -400	4 170	3	15 154	19 327
More than -400 to -300	4 977	7	18 158	23 142
More than -300 to -200	5 074	6	23 183	28 263
More than -200 to less than -100	5 738	8	29 804	35 550
-100 to less than 0	7 327	15	46 621	53 963
TOTAL	**92 712**	**76**	**190 322**	**283 110**

Source: FaCSIA — Special data extract and report provided by the Estimates and Analysis Section, Family Payments Branch, on 7 July 2006.

Appendix 5: Agency responses

Agency responses to the audit report are included in this Appendix. Where an agency provided a separate 'summary' response, this has been included in the summary section of this report (see paragraphs 39 to 43 inclusive) and not necessarily duplicated here.

Australian Taxation Office

Performance Audit: Management of Family Tax Benefit Overpayments

I refer to your letter and attached Audit Report dated 4 October 2006 regarding the audit: Management of Family Tax Benefit Overpayments.

The Australian National Audit Office makes a number of findings that lead to the recommendations that the Family Assistance Office (FAO) evaluate the introduction of a revised Family Tax Benefits claim form and, secondly, that FAO draws on the success in reducing reconciliation debt to develop measures to reduce the incidence of non-lodger debt.

Summary Comments

The Tax Office has no issue with the audit findings and supports the two consequential recommendations. It also notes the importance of developing a deeper understanding of the circumstances surrounding non-lodger debt so as to provide a reliable platform from which to develop administrative measures targeted at reducing the incidence of this debt, thereby ensuring any awareness strategies and lodgement enforcement activities are appropriately scoped.

Response provided by Mr Jim Killaly, Acting Second Commissioner.

Centrelink

Performance Audit - Management of Family Tax Benefit Overpayments

Centrelink would like to thank the Australian National Audit Office for the opportunity to provide comments on the proposed performance audit report on the *Management of Family Tax Benefit Overpayments.* I welcome this report, its findings and recommendations. I would particularly like to acknowledge the professionalism, expertise and cooperative approach of the ANAO's auditors throughout the process.

Centrelink has examined the report closely and has provided its responses and summary [attached].

Responses

Recommendation 1 - Agreed

Recommendation 2 - Agreed

Summary

Centrelink accepts the findings and recommendations of this audit. Centrelink would also like to thank the Australian National Audit Office for the way in which this audit was conducted. Centrelink appreciates the auditor's efforts and willingness to foster a positive working relationship with its officers. This audit will greatly assist Centrelink to focus its attention and work with its Family Assistance Office partners to develop measures to address the key findings and recommendations.

Response provided by Mr Jeff Whalan, Chief Executive Officer.

Department of Human Services

I refer to your letter of 4 October 2006 under section 19 of the Auditor-General Act 1997 concerning the performance audit of the Management of Family Tax Benefit in which you sought my comments on the report.

Noting that one of the key factors driving the creation of the Department of Human Services was the need to improve customer service and both of your recommendations provide opportunities to do this, I agree to both of the recommendations. Initiatives recently announced by the Australian Government means that the Child Support Agency will be undertaking compliance activity to reduce the numbers of parents not lodging their tax returns. This then means flow-on benefits to the administration of the Family Tax Benefit Scheme.

Thank you for the opportunity to comment.

Response provided by Ms Patricia Scott, Secretary.

Department of Families, Community Services and Indigenous Affairs

The Department of Families, Community Services and Indigenous Affairs (FaCSIA) considers that the audit report provides a comprehensive and fair appraisal of the management of FTB overpayments. FaCSIA acknowledges the professional and collaborative manner in which ANAO's auditors undertook this audit.

FaCSIA agrees with both recommendations of the audit report, and with the ANAO's conclusion that a range of strategies and measures introduced over the life of the programme are successfully reducing the level of reconciliation debt for FTB customers.

FaCSIA believes there is evidence that some of these measures are also helping to contain non-lodger debt. The level of non-lodger debt raised in November 2005 in respect of 2003-04 FTB entitlements was around 29 per cent lower than the amount raised in the previous year in respect of 2002-03 FTB entitlements. FaCSIA believes that FTB supplements are providing an incentive for people to lodge their tax returns or advise that they are not required to do so.

FaCSIA notes that there are considerable lags before the full impact of debt reduction measures is evident in the overall stock of FTB debt. FaCSIA believes that the stock of FTB debt is currently in decline. It notes that the stock of FTB debt at the end of September 2006 was $640 million. This is the lowest level since the end of 2003 and less than 1 per cent of total FTB outlays since July 2000.

Response to Recommendation 1

FaCSIA agrees with the recommendation.

Response to Recommendation 2

FaCSIA agrees with the recommendation.

Response provided by Dr Jeff Harmer, Secretary.

Medicare Australia

Performance Audit — Management of Family Tax Benefit Overpayments

I refer to your letter dated 4 October 2006 seeking comments pursuant to section 19 of the *Auditor-General Act 1997* in relation to the above report. Medicare Australia would like to thank the Australian National Audit Office for the opportunity to provide comments. In response, Medicare Australia submits the following.

Comments

Medicare Australia supports the findings of the report. It should be noted that Medicare Australia has been engaged in a phased implementation of expanded family assistance office services, which commenced on 1 July 2005, and is due for completion on 6 November 2006. As a consequence, Medicare Australia is a relatively new participant in the provision of full family assistance office services. Medicare Australia has noted the important role of our staff in providing information to customers about how they can avoid the occurrence of a debt.

Recommendation No.1 *"The ANAO recommends that the FAQ evaluates the introduction of the new FTB claim form (FAO04), for its impact on administrative workload and consistency of advice to new customers."*

Response. Agreed. Medicare Australia will undertake a joint evaluation with Centrelink to enable the Agencies to identify common issues or those which are impacting only one agency. Discussions have already begun with a view to commencing this evaluation as soon as possible. In addition, Medicare Australia will conduct a broader evaluation following the completion of the rollout. This will be done in the third quarter of the financial year, and Medicare Australia will include this item within the terms of reference of that evaluation. It is expected this work will complement the joint Agency evaluation. Any findings which might assist improving the process will be shared with FAQ partner agencies.

Recommendation No.2 *"The ANAO recommends that, building on the success of the strategies used to reduce reconciliation debt, the FAQ develops and implements a customer awareness raising strategy and/or administrative measures, specifically targeted at reducing the incidence of non-lodger debt."*

Response. Agreed. Medicare Australia proposes addressing this through administrative measures, using the face to face contact with customers as an opportunity to identify customers who might be at risk of incurring a non-lodger debt, and providing appropriate advice to the customer.

Response provided by Ms Catherine Argall PSM, Chief Executive Officer.

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