

The Auditor-General
Audit Report No.43 1999–2000
Performance Audit

Planning and Monitoring for Cost Effective Service Delivery

—Staffing and Funding Arrangements

Centrelink

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Canberra ACT
11 May 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in Centrelink in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Planning and Monitoring for Cost Effective Service Delivery—Staffing and Funding Arrangements*.

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



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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Abbreviations/Glossary

ABC	Activity Based Costing— a costing method that measures the cost and performance of process-related activities and cost objects, and which recognises the causal relationship of cost drivers to activities
ABM	Activity Based Management
activity	a transformation process that converts an input to an output (ABC related)
activity dictionary	the identification of the important activities (including a description of what is done) that are performed within a function (ABC related)
AFFA	Department of Agriculture, Fisheries and Forestry— Australia
AIMS	Accrual Information Management System
ANAO	Australian National Audit Office
ASOs	Area Support Offices
ATSI	Aboriginal and Torres Strait Islander
BGC	Business Governance Council
BSC	Balanced Scorecard: a performance measurement system monitoring performance against key indicators across the goals set out in Centrelink’s Strategic Framework
benchmarking	comparing current performance in critical processes to that of external organisations with similar processes.
CCs	Call Centres
CEO	Chief Executive Officer
cost driver	the event, transaction or occurrence that gives rise to an activity being performed which is measurable and described as “the number of”(ABC related)
cost object	products or services (ABC related)
cost tracing path	the identification of the customer of an activity’s output (ABC related)
CSCs	Customer Service Centres
CSIPs	Customer Service Improvement Plans

DCALB	Diverse Cultural and Linguistic Background
DETYA	Department of Education, Training and Youth Affairs
DEWRSB	Department of Employment, Workplace Relations and Small Business
DFaCS	Department of Family and Community Services
DHAC	Department of Health and Aged Care
DoFA	Department of Finance and Administration
DSS	(former) Department of Social Security
FARMS	Financial and Resource Management Steering Committee
FTE	Full Time Equivalent
GC	Guiding Coalition
G3	Business Improvement Committee
Infolink FMIS	Financial Management Information System
IT	Information Technology
JCPAA	Joint Committee on Public Accounts and Audit
JOG	Joint Operations Group—working groups between Centrelink and its purchasers
KPIs	Key Performance Indicators
KRA	Key Result Area
Network	Centrelink’s customer service network
NSO	National Support Office of Centrelink
OHS	Occupational Health and Safety
PAC	Procedure and Accuracy Checking System
PBS	Portfolio Budget Statement
PDMS	Performance Data Management System
RFM	Regional Funding Model
SCM	Services Costing Model
Teams	organisational term for functional units within NSO, includes Customer Segment Teams, IT Teams and Theme Teams.
VRs	Voluntary Redundancies

Summary and Recommendations

Summary

Introduction

1. Centrelink was established as a statutory authority with its own legislation in July 1997. It is financed through agreements with a number of Government departments to provide a range of community and employment services.

2. Centrelink is a large, decentralised, organisation operating out of more than 400 sites across Australia and employing some 22 600 people. The delivery of Centrelink's services is devolved through a network of 300 distributed outlets, known generally as Customer Service Centres (CSC's), clustered into Areas, and through a network of linked call centres.

3. In 1998–99, it made payments totaling \$45 billion to 6.1 million customers including retirees, families with children, unemployed, students and people with a disability. These payments are about one third of Commonwealth budget outlays. Its administrative expenditure of approximately \$1.7 billion represents approximately 20 per cent of Federal Government administrative expenditure.

4. Since its start-up, Centrelink's funding from its major client departments has been subject to efficiency dividends. The cumulative effect of these efficiency dividends over Centrelink's first three years of operations to 30 June 2000, is a reduction of \$361 million in budget allocation for administrative purposes. At the same time, Centrelink has received additional funding for new business from Federal Budget initiatives, maintaining the revenues received for administration at around \$1.7 billion per annum, but these will decline in future years as implementation funding for these initiatives ceases.

5. Through its Financial Plan, the main means that Centrelink has been using to manage its budgetary constraints is the implementation of a range of projects intended to improve productivity and allow a 20 per cent reduction in staff over three years to the end of 2000–01. Other key strategies are being developed to forward manage its budgetary position, particularly the development of a new Service Delivery Model. This will substantially reengineer service delivery around the life events of its customers rather than through payment streams as is currently. Centrelink had advised that it intends to undertake this re-engineering in conjunction with its client departments.

6. In order to manage in this environment, it is essential for Centrelink to have an appropriate planning framework in place to ensure that staff and other resources, at all organisational levels, are deployed to achieve the agency's cost and service delivery goals. Decision making relating to Centrelink's business plans, require sound judgements by managers who know and understand Centrelink's operations. The growing demands for quality services at contestable prices increase the need for this decision making to be supported by relevant management information relating to costs and performance.

Audit objective, scope and focus

7. The overall objective of the audit was to determine whether Centrelink's planning, monitoring and costing arrangements provide a sound basis to underpin its delivery of quality, cost effective customer services.

8. The scope of the audit addressed:

- business planning processes, with a particular focus on Centrelink's strategic and financial planning (Chapter 2);
- Centrelink's management information and its use to allocate resources for staffing efficiently across and within its customer service network and manage effectively the performance of this network in order to achieve its stated business goals (Chapter 3); and
- the project design and implementation of Centrelink's Activity Based Costing (ABC) system in order to meet its cost management needs (Chapter 4).

9. In scoping this audit, the ANAO planned a second phase of the audit, to be reported separately. This was to include an ANAO survey to validate staff workload data and to assess the impact of productivity initiatives following interviews with Centrelink's CSC managers. However, the ANAO has decided not to proceed with the second phase of the audit at this stage, owing to similar survey work being planned by Centrelink, and the lack of ready access to performance information at the customer service outlet level.

10. In addition, several aspects of the planned test program for the first phase of the audit were unable to be undertaken because of the difficulties Centrelink had in providing various data sets for analysis. Whilst the ANAO had been advised by Centrelink prior to the audit that this data was available and that the request was for data considered by the ANAO to be central to Centrelink's effective management of its network, Centrelink subsequently advised that much of the data

requested was not standard and therefore special programming was required to extract it. As a result, in some cases the data could not be provided within a timeframe that would allow the ANAO to meet its tabling commitments, and in other cases, not at all.

11. The ANAO developed analytical tools and techniques for testing the audit criteria. The details of these and their results were made available to Centrelink for on-going use and development.

Overall conclusion

12. Centrelink's strategic and financial planning processes are sound, essentially reflecting better practice. Centrelink has reported in its 1998–99 Annual Report that it is meeting the financial goals set out in its plans while maintaining service delivery standards. The ANAO considers that this success to date has relied to a large extent on the judgement of experienced managers within Centrelink using performance and financial information available at the corporate level. Against this background, the ANAO identified a range of issues affecting the reliability and analysis of the management information at the service delivery outlet level, and impacting on Centrelink's ability to effectively monitor and cost its service delivery.

13. Going forward, Centrelink will require ready access to more robust management information, particularly on cost, to support its managers to implement and evaluate major business initiatives and to use to set prices with its purchasers. In an environment of continuing funding constraints, Centrelink will also need reliable management information to provide an assurance to Government and client departments that it has the capacity to maintain timely, quality and cost effective service delivery.

14. In particular, the ANAO concluded that Centrelink would be able to achieve its goals more efficiently and effectively by developing and using reliable, comparative information to allocate resources to, and monitor the performance of, its business units at the Area and CSC level. This would provide added assurance to stakeholders that Centrelink has adequate management information to support the planning and monitoring of its 300 customer service centres.

15. Centrelink has been implementing an ABC system which, when completed, should provide it with the capacity to reliably report to Government on output costings, and use to improve the cost effectiveness of its operations. As yet, Centrelink does not have this capacity, as its ABC system is at an early stage of development. The ANAO considers Centrelink could have progressed the implementation of its ABC system

in a more timely and effective fashion, had it applied recognised project management techniques to its development.

Centrelink's response

16. Centrelink agreed with the audit recommendations.

17. Centrelink indicated that it was pleased at the positive comments arising about management at the whole-of-organisation level, including that the corporate financial plan and financial planning processes essentially reflect better practice.

18. Centrelink advised that it has taken careful note of the specific criticisms of its initial approach to ABC, and aspects of resource allocation and management information at the local level. It further advised that it has made considerable progress in addressing these issues since the time of the audit fieldwork. Centrelink emphasised, however, that the issues identified by the audit need to be seen in the context of:

- the cost effectiveness of undertaking all elements of planning, monitoring, cost measurement and estimation techniques;
- the progress that Centrelink had made in improving the measurement supporting its estimates compared with pre-Centrelink figures, including those for its clients' Portfolio Budget Statements;
- the particular difficulties of ABC in service-based organisations; and
- Centrelink's current three-year project plan for implementing ABC which was developed during the audit. Centrelink has advised of its intention to pick up the lessons from its initial year of ABC development which the audit emphasised, as well as identifying additional, valuable lessons.

Key Findings

Business planning processes (Chapter 2)

19. The ANAO found that Centrelink's business planning processes¹ were consistent with the requirements of sound corporate governance. In particular:

- Centrelink's business planning framework had a clear approval process by the Board, clearly specified roles and responsibilities through its committees and links between the various levels of planning;
- its corporate strategic planning process and the *Centrelink Strategic Framework* provide analysis of the organisation's strategic position with respect to its stakeholders and competitors;
- its strategic planning process at the business unit level involved the key relevant managers and reflected the corporate strategic objectives; and
- its corporate financial plan and planning process reflect many features of better practice. They provide a sound basis to determine the overall resource distribution across National Support Office operations, the Area network, and the call centre network.

Centrelink's use of management information to underpin its financial goals (Chapter 3)

Allocation of resources to Areas and to customer service centre outlets

20. The total resources for allocation to the Areas for the operation of the Area Support Offices and their Customer Service Centres (CSCs) are determined by Centrelink's corporate financial planning processes.

21. The ANAO found that current methodologies used to allocate the total resources to individual Areas and onto their CSC network, and the data input to these approaches, address many of the shortcomings of the previous approach, the Resource Funding Model, but have themselves

¹ This audit concentrated on Centrelink's strategic and financial planning processes. Centrelink's risk management and fraud control plans are intended to be the subject of a further performance audit in 2000-01.

weaknesses which reduce the effectiveness of the process to allocate resources in line with workloads. These include:

- the statistical estimation techniques of unit costs which do not include all components of workloads for service delivery across an Area;
- unit costs that do not reflect variations in costs caused by particular local geographic or demographic characteristics; and
- an absence of guidelines for Area managers for allocating resources within their Area, leading to Areas developing their own models for resource allocation to customer service centres that have resulted in inappropriate applications of unit costs.

22. In order to assist Area managers to ensure they have an appropriate methodology and costings available to them for effective and efficient resource allocation within Areas, the ANAO has made a specific recommendation to address this issue.

Monitoring Centrelink's progress towards its business goals

23. The ANAO noted that, in its 1998–99 Annual Report, Centrelink reported that it had achieved a successful outcome against its Financial Plan and exceeded the Key Performance Indicators in the Key Result Area (KRA) on client partnerships under the 1998–99 Balanced Scorecard. Staff reductions, principally during 1997–98, were a major factor contributing to Centrelink's reduced net operating costs for its on-going service delivery.

24. The ANAO found, however, that the management information on which Centrelink bases its outcome reporting is not sufficient to provide a reliable assessment at the business unit level. Centrelink's data, at the customer service centre level, has problems with availability, quality and compatibility. The shortcomings in its data at this level have limited Centrelink's ability to analyse the performance of its CSC network; to monitor the implementation and impact of productivity improvement initiatives underpinning the achievement of financial and strategic goals; and to identify better practice to assist in ensuring cost effective service delivery. While noting that Centrelink has some plans at a very early stage to improve local level data, the ANAO has made a recommendation on this issue to ensure that it is given sufficient priority to complete in a timely fashion.

Design and implementation of comprehensive costing system (Chapter 4)

25. Determining the appropriate method to collect and determine cost data requires careful analysis of the nature of an organisation's operations. Centrelink has been exploring the use of ABC to identify costs of its service delivery components, as such a system will assist it to more accurately attribute its management and operational support costs, such as IT development and support costs. The latter, estimated in 1998–99 at \$0.8 billion, represents almost half of Centrelink's administrative expenditure and therefore needs to be accurately attributed to service costs.

Design of Centrelink's ABC model

26. The ANAO found that the design of Centrelink's ABC model, current at the time of the audit fieldwork, does not incorporate the key features of an effective ABC costing system. In particular, it does not:

- identify activities to a sufficient and appropriate level of detail;
- use a sufficiently accurate means of tracing resources to activities;
- identify and use cost driver data; and
- adequately trace activity costs through their consumption points prior to attributing costs to cost objects.

27. During the course of the audit, the ANAO noted developments in Centrelink which have the potential to address many of these issues.

Implementation of ABC as a project

28. The ANAO found that Centrelink had been provided with sound, specialist advice from external consultants on how to proceed with the development of its ABC system. However, the effectiveness of the project implementation has been reduced, as:

- Centrelink had not established an effective change management program for implementing a project of the importance of the ABC system;
- the ABC project was not supported by a structured project management approach;
- the skills and level of resources needed to produce an effective solution in the time-frame required were underestimated by Centrelink and had not been provided; and
- Centrelink did not have an effective cost management IT strategy to link the inputs and outputs from its ABC model with its other various cost management activities.

29. Again, the developments that the ANAO noted during the course of the audit have the potential to address many of these issues, and to ensure adequate priority is provided for a comprehensive costing system.

Supplementary costing plans and developments

30. A number of supplementary costing approaches were being planned or recently developed by Centrelink. The ANAO found that these do not provide the accuracy and functionality required for Centrelink to plan and monitor productivity improvements and to account for its expenditures on an output basis, and therefore, are not adequate substitutes for an ABC system. However, one development, known as the Joint Operation Group (JOG) exercises could form a useful component of a fully functional ABC model. The costings from these at the operational level are based in part on cost driver data.

Recommendations

Recommendation No.1
Para. 3.42

The ANAO recommends that Centrelink develop and promulgate to Area managers, user-friendly guidelines on the methodology and costings they are to use for the allocation of resources to Customer Service Centres (CSCs) commencing with the 2000–01 financial year allocation.

Centrelink: Agreed

Recommendation No.2
Para. 3.80

The ANAO recommends that Centrelink develop its capacity to analyse the performance of its CSC network; to monitor implementation of productivity projects; and to identify better practice, by improving access to its management data on CSCs as well as by ensuring that these data are compatible and reliable.

Centrelink: Agreed

Recommendation No.3
Para. 4.60

In order to provide the necessary reliability of Centrelink’s costing information as a basis for planning productivity improvements and accounting for its expenditures of purchaser funds, the ANAO recommends that Centrelink implement and maintain a comprehensive costing system with the functionality of an ABC approach. Such a system should:

- be supported by a structured project management approach that includes a formal project plan and senior management project steering committee;
- reflect the fundamental principles of a proven approach; and
- be based on appropriately accurate and relevant input data.

Centrelink: Agreed

Audit Findings and Conclusions

1. Introduction

This chapter provides background to the audit, the audit objectives and approach, as well as environmental factors particular to Centrelink that the audit took into account.

Background

1.1 Centrelink was established as an independent statutory authority in the Family and Community Services portfolio on 1 July 1997. Centrelink has responsibility for the delivery of a range of Commonwealth social and economic payments and services under formal purchaser/provider arrangements. Its major purchasers are, in order of business value:

- Department of Family and Community Services (DFaCS);
- Department of Employment, Workplace Relations and Small Business (DEWRSB); and
- Department of Education, Training and Youth Affairs (DETYA).

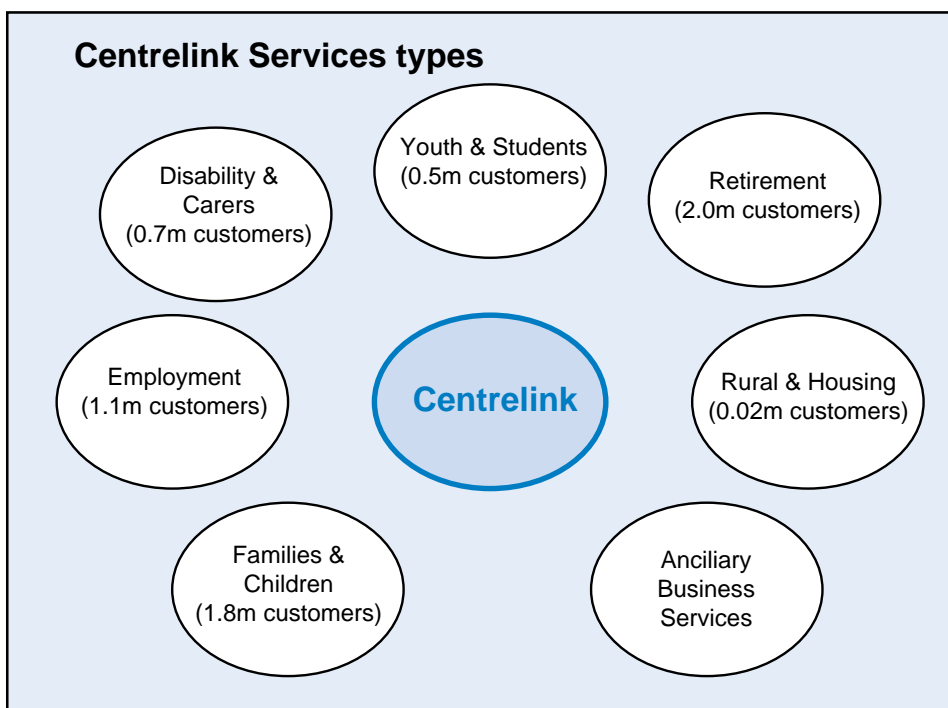
Other purchasers with smaller purchasing agreements include the Department of Agriculture, Fisheries and Forestry—Australia (AFFA) and the Department of Health and Aged Care (DHAC).

Centrelink customer groups and services

1.2 In 1998–99, Centrelink delivered income support, other payments and referral services across Australia to 6.1 million customers, with payments of over \$45 billion. The range of customer groups and associated payments and services is extensive as indicated in Figure 1.1. Each of the service clusters includes several types of payments. For example, the Families and Children cluster has 11 payments or services, including:

- Family Allowance;
- Maternity Allowance;
- Parenting Payment; and
- Child Support.

Figure 1.1
Centrelink customer groups and services²



Customer service network

1.3 The delivery of Centrelink’s services is devolved through a network of distributed outlets, known generally as Customer Service Centres (CSCs), and through a network of linked Call Centres (CCs). Three hundred CSCs are located across the country to allow customers to visit and meet with Centrelink staff to discuss their needs. The service delivery arrangements in the CSCs reflect the responses of local managers to the needs of their local communities. Twenty-three CCs³ provide the opportunity for customers to undertake transactions over the telephone. Additional service centres provide face-to-face services tailored to the needs of particular groups of customers.

1.4 To accommodate its geographical spread across Australia, Centrelink has grouped its CSCs into 15 Areas, each with its own Area Support Office (ASO). The role of these ASOs is to provide management, administrative and operational support for CSCs. The CC Support Office provides a similar role for the CC network.

² All customer numbers are as at last fortnight in June 1999. Each customer is counted once under their primary benefit or service.

Source: Centrelink 1998–99 Annual Report

³ As at 30 June 1999.

Fiscal environment

1.5 In establishing Centrelink, the Government set a special efficiency dividend to be achieved over subsequent years. This was based on expected savings to result from the rationalisation and integration of service delivery and from revising the operations of the former Department of Social Security (DSS), the main agency whose service delivery function was transferred to Centrelink. This efficiency dividend was set at 2.5 per cent for 1997–98 rising to 10 per cent (non-cumulative, non-compounding) in 1999–2000 and beyond.

1.6 In addition to the special efficiency dividend, Centrelink is expected to deliver the normal efficiency dividend of one per cent per annum for administrative costs expected of all Government agencies as well as IT Infrastructure Mandatory Savings. The cumulative effect of these savings for the three years to 30 June 2000 is a \$361 million reduction in revenue than it would otherwise receive. At the same time, Centrelink has received additional funding for new business from Federal Budget initiatives, maintaining the revenues received at around \$1.7 billion per annum, but this funding will decline in future years as implementation funding for these initiatives ceases. Table 1.1 sets out the values of these efficiency dividends against revenue received and forward estimates.

Table 1.1

Centrelink Efficiency Dividends and Revenues 1997–98 to 2000–01⁴

(All figures are on an annual basis in the dollar values of each specific year)

<i>Efficiency Dividend Type</i>	<i>97–98 \$M</i>	<i>98–99 \$M</i>	<i>99–00 \$M</i>	<i>00–01 \$M</i>
<i>Special efficiency dividend</i>	38.1	59.2	139.4	139.4
<i>Normal efficiency dividend</i>	16.0	31.0	46.0	61.0
<i>IT infrastructure mandatory savings</i>	-	5.9	25.4	24.8
<i>Total (% of cash received/expected to be received from sale of services)</i>	54.1 (3.4%)	96.1 (5.7%)	210.8 (12.5%)	225.2 (13.5%)
Cash (received/expected to be received from sale of services)	1609.7	1689.0	1683.7	1670.5

⁴ Figures provided by Centrelink, 21 January 2000.

Operating environment

1.7 Centrelink faces these fiscal challenges in an increasingly demanding operating environment, including:

- the emphasis by Government on public sector agencies delivering services at a contestable price;
- its need to meet agreed obligations with a variety of purchasers with individual requirements—from DFACS which contributes approximately 90 per cent of Centrelink's income through to AFFA whose payments to Centrelink are less than 0.3 per cent of its income;
- the scale of efficiencies expected to be achieved while maintaining the quality of service delivery, recognising that Centrelink needs to invest significant resources into projects that will increase its productivity and that productivity improvements from such investments may lag the application of efficiency dividends;
- the implementation of initiatives on behalf of Government, many within challenging timeframes and often requiring Centrelink to absorb additional costs, for example, the introduction of the Common Youth Allowance and the Job Network;
- Government requirements for agencies to report on the costs of outputs and outcomes in Portfolio Budget Statements, which for Centrelink means an obligation to separately account for its expenditure on service delivery undertaken for the departments; and
- the increasing sophistication and complexity of IT systems with the potential to facilitate and provide alternatives to service delivery, both in terms of providing electronic access and processing.

1.8 In order to meet these challenges, the ANAO has noted that Centrelink's Financial Plan outlines two key stages. The key strategy to date is based on delivering services using fewer staff. As outlined in Chapter 3 (paragraph 3.59), Centrelink has reported that it has achieved a successful outcome against this strategy to date—meeting required efficiency dividends as well as key service delivery requirements.

1.9 The next stage of the Financial Plan is more substantial, requiring significant investment. This involves the implementation of a new Service Delivery Model which will re-engineer service delivery to its customer groups based on life events rather than through payment streams. The delivery channels would be more flexible, for example through electronic service delivery. The model is being implemented in phases, the first of which has been endorsed by Centrelink's Board. The business case, including costs and benefits, for full implementation is currently being

developed for the Board's consideration. Centrelink anticipates that the costs for full implementation will require a significant investment, proportional to its current annual expenditure, but is expected to deliver very significant productivity gains and high returns on investment.

1.10 In order to manage in this environment, it is essential for Centrelink to have an appropriate planning framework in place to ensure that staff and other resources at all organisational levels are deployed to achieve the agency's cost and service delivery goals. Decision-making relating to Centrelink's business plans, require sound judgements by managers who know and understand Centrelink's operations. The growing demands for quality services at contestable prices, increase the need for this decision-making to be supported by relevant management information relating to costs and performance.

Audit objective, scope and focus

1.11 The overall objective of the audit was to determine whether Centrelink's planning, monitoring and costing arrangements provide a sound basis to underpin its delivery of quality, cost effective customer services.

1.12 The scope of the audit addressed:

- business planning processes, with a particular focus on Centrelink's strategic and financial planning;
- Centrelink's management information and its use to allocate resources efficiently across and within its customer service network and manage effectively the performance of this network in order achieve its stated business goals; and
- the project design and implementation of Centrelink's Activity Based Costing (ABC) system in order to meet its cost management needs.

1.13 In scoping this audit, the ANAO planned a second phase, to be reported separately. The second phase was intended to include:

- an ANAO survey to validate the survey undertaken by Centrelink to provide staff workload and unit cost data. However, Centrelink indicated during the audit that it planned to do a further collection to obtain this data; and
- a survey and follow-up of customer service network managers to identify better practices in resource management, as well as the impact of Centrelink initiatives intended to improve productivity. In order to maximise the value of such a survey, a comparison against existing performance information on the productivity of customer service

outlets would need to be made. As discussed in Chapter 3, however, the ANAO concluded that Centrelink does not have ready access to performance information at this level.

1.14 For the above reasons, the ANAO considered that the second phase of the audit should not proceed at this time. However, a further audit that covers these issues will be considered for audit coverage at a suitable future time.

1.15 In addition to the proposed second phase of the audit being postponed, several aspects of the planned test program for the first part of the audit were unable to be undertaken owing to the difficulties Centrelink had in providing various data sets for analysis. In some cases the data could not be provided within a timeframe that would allow the ANAO to meet its tabling commitments, and in other cases, not at all.

Audit approach and methodology

1.16 The audit fieldwork was conducted between August 1999 and January 2000, in Centrelink's National Support Office (NSO), involving discussions with key Centrelink staff and managers, examination of an extensive range of relevant documentation, including plans, correspondence and reports prepared by or for Centrelink. Staff from Area Support Offices and the Call Centre Support Office were also consulted.

1.17 The ANAO provided Centrelink with regular feedback on its findings against the audit criteria. This included making available to Centrelink for on-going use and development the details of the analytical tools and techniques and the results of outcomes of analyses undertaken by the experts engaged by the ANAO. In addition, opportunities were provided for Centrelink to discuss the issues with, and gain advice directly from, these experts. In October 1999, the ANAO provided Centrelink's Executive with a detailed presentation of the preliminary findings arising from the fieldwork conducted up to that time.

1.18 The ANAO also interviewed the three main purchasers of Centrelink's service delivery, that is—DFaCS, DEWRSB, and DETYA, in order to understand their perspectives and views on the issues that the audit was addressing.

1.19 The audit was conducted in accordance with ANAO auditing standards at a cost of \$430 000.

Use of consultants

1.20 A number of consultants were contracted to the audit to provide specialised assistance, as follows:

- PriceWaterhouseCoopers (PWC) provided expertise in business planning, particularly the financial planning aspects. Their contribution to the audit included, determining relevant criteria, designing and carrying out fieldwork, evaluating the data gathered, and drawing out findings and conclusions. The outcome of their work forms the basis of Chapter 2;
- Drs Steven Stern and Michael Martin, consultant statisticians, Australian National University, provided expertise in statistical modelling and review. Their contribution included review of the statistical aspects of Centrelink's approach to allocating resources to its customer service network. Their work is reflected in the statistical findings in Chapter 3; and
- Martin A. Cocker Pty Ltd provided expertise in cost management systems, including ABC systems. Their contribution was similar to that provided by PWC but in relation to costing methodologies. Their work forms the basis of Chapter 4.

1.21 The contractors were authorised under the *Auditor-General Act 1997* and conducted their evaluation and analysis in accordance with the ANAO auditing standards.

Previous audit coverage

1.22 Several ANAO performance audit reports on Centrelink have been tabled since its inception, these are:

- Audit Report No. 1, 1999–2000 *Implementing Purchaser/Provider Arrangements between Department of Health and Aged Care and Centrelink; DHAC and Centrelink;*
- Audit Report No. 8, 1999–2000 *Managing Data Privacy in Centrelink;*
- Audit Report No. 20, 1999–2000 *Special Benefits (DFaCS and Centrelink);*
- Audit Report No. 30, 1998–1999 *The Use and Operation of Performance Information in the Service Level Agreements DFaCS, DETYA and Centrelink;*
- Audit Report No. 18, 1997–1998 *Management of the Implementation of the New Commonwealth Service Delivery Arrangements;* and
- Audit Report No. 37, 1997–1998 *Protection of Confidential Client Data from Unauthorised Disclosure DSS and Centrelink.*

1.23 In 1995, the ANAO reported (Report No.4 1995–96) on a performance audit of the then Department of Social Security’s (DSS’s) regional office resourcing and benefit processing. The report examined approaches being taken to resource allocation, and the opportunities for efficiencies from business process re-engineering throughout DSS’s network of service delivery outlets. Several recommendations in regard to resourcing DSS regional offices were examined in this audit in relation to Centrelink’s operations.

This report

1.24 The remaining chapters of this report focus on business planning (Chapter 2), an evaluation of resource allocation and performance management within Centrelink’s customer service network (Chapter 3) and an examination of Centrelink’s progress towards developing an ABC system (Chapter 4).

2. Business Planning Processes

This chapter examines Centrelink's processes for undertaking its business planning, in particular, its strategic and financial planning at the national and business unit level.

Introduction

2.1 One of the key elements of sound corporate governance is to have appropriate planning processes in place. This ensures that staff and resources at all organisational levels are best deployed to achieve the organisation's overall goals. Planning, including financial planning, is particularly important where the agency is required to make efficiency gains and productivity improvements as is the case for Centrelink.

2.2 In this context, the ANAO examined Centrelink's:

- business planning framework;
- corporate strategic planning;
- business unit strategic planning; and
- financial planning.

2.3 Each of these areas is discussed separately below. The key criteria against which they were examined are included at the beginning of each section. The capability of Centrelink's management information to allow managers to reliably monitor the effectiveness of its business plans is examined in Chapter 3.

Centrelink's planning framework

2.4 For an agency to effectively achieve its aims, a sound planning framework is required. The ANAO therefore sought to establish whether Centrelink's planning framework:

- had a clear approval process for Centrelink's business plans;
- allowed for input by management and staff across the organisations;
- had clearly specified roles and responsibilities for planning functions; and
- provided for links between planning components (for example, strategic and financial) and between planning levels (for example, corporate and Area levels).

2.5 Centrelink’s organisational structure showing some of these key elements of the structure with regard to planning is represented in Figure 2.1.

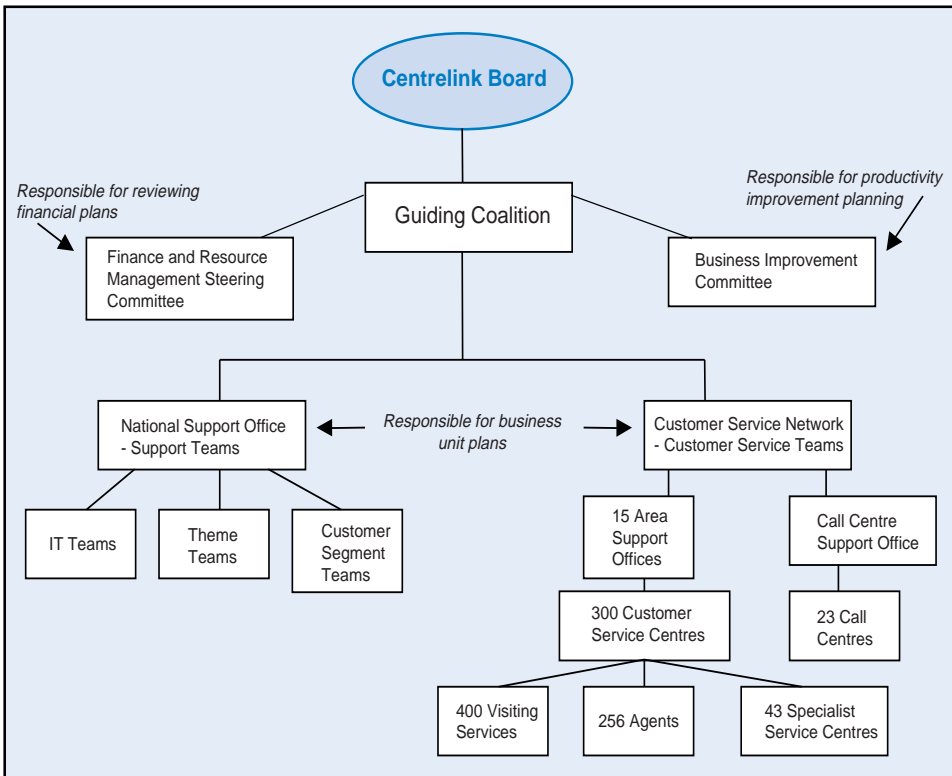
The role of Centrelink’s Board

2.6 Centrelink is governed by a Board of seven members. The role of the Board as defined by legislation is to:

- decide Centrelink’s goals, priorities, policies and strategies; and
- ensure that functions are properly, efficiently and effectively performed.

The Board is provided with recommendations on such matters by Centrelink’s Executive on advice from the Guiding Coalition (GC)⁵.

Figure 2.1.
Centrelink Organisational Structure



⁵ The Guiding Coalition is Centrelink’s Management Committee, comprising all the senior executives in Centrelink.

Management input and coordination

2.7 GC provides a forum where the executive managers from the customer service delivery teams and support teams and the Centrelink Executive can meet and provide input on key issues. Importantly, this management group reviews and provides inputs to key strategic and financial plans that are recommended to the Board for consideration. Given that the Guiding Coalition represents the management level across the whole organisation, there are opportunities through them for comprehensive staff consultation.

Roles and responsibilities

2.8 GC has two key committees that have been delegated responsibilities in relation to financial planning. These are:

- the Business Improvement Committee, or G3, which has been delegated the responsibility of managing business improvement projects requiring funding to harvest benefits. It also supports these projects with an evaluation and management methodology; and
- the Financial and Resource Management Steering Committee (FARMS), a high level committee, which has been delegated the responsibility for reviewing financial plans and performance, considering resource management issues and defining and agreeing responsibilities for financial management across interrelating teams.

2.9 A number of National Support Office (NSO) teams provide the support and co-ordination for each of the various corporate planning processes. In particular:

- the Strategic Team supports Centrelink's strategic planning activities; and
- the Resource Management Team supports financial planning activities.

Links between levels of planning

2.10 The ANAO found that links and inter-relationships between Centrelink's various planning components and outputs are transparent and has mapped an outline of these links in a series of diagrams with explanatory text at Appendix 1.

Conclusion—planning framework

2.11 The ANAO concluded that Centrelink had a sound planning framework with a clear approval process by the Board; adequate management input through the Guiding Coalition and, through these managers, opportunities for consultation with staff; clearly specified roles and responsibilities through its committees and relevant NSO teams; and adequate links between the various levels of planning.

Strategic planning

2.12 In order to determine the effectiveness and comprehensiveness of Centrelink's strategic planning processes, the audit examined the following two management aspects:

- corporate strategic planning processes; and
- business unit strategic planning processes.

Corporate strategic planning processes

2.13 The ANAO assessed the processes underpinning Centrelink's corporate strategic planning and its corporate plan, entitled *Centrelink Strategic Framework* against key criteria. These criteria and the ANAO's findings against each of them are set out in Table 2.1.

2.14 The ANAO found that Centrelink's strategic planning process, and the plan itself, met most of the features of better practice as set out in the criteria. However, the analysis indicated that there were three areas that, although not business critical, would improve Centrelink's strategic process by:

- improving its capacity to accurately cost the impact of major projects. This issue is discussed in more detail in Chapters 3 and 4.
- integrating a program of external benchmarking. Centrelink has a range of uncoordinated benchmarking projects, increasing the risk of unnecessary and costly duplication and undertaking projects that would not have been approved as priorities if a more global approach had been followed. Recognising that benchmarking can be an expensive and time-consuming process, a coordinated approach in this respect would allow Centrelink to focus on identified priorities (and risks) and to fully integrate benchmarking into its planning and performance measurement processes. Centrelink has informed the ANAO that it is currently taking steps to adopt this approach; and
- developing more comprehensive guidelines for the development of business unit strategic plans. The impact of this is discussed further in the following section on business unit strategic planning.

Conclusion—corporate strategic planning

2.15 The ANAO considers that Centrelink's corporate strategic planning process and the *Centrelink Strategic Framework* are effective in analysing the organisation's strategic position with respect to its stakeholders and competitors, setting the strategic objectives for the organisation, and providing a sound framework for achieving these objectives.

Business unit strategic planning

2.16 Business unit planning takes place at the team level in National Support Office and customer service network team levels. (See Figure 2.1 at the start of this chapter for an illustration of Centrelink's organisational structure).

2.17 In examining this level of planning, the ANAO sought to establish whether:

- management at the appropriate level was involved in developing these plans;
- the plans were developed in line with the corporate strategic plan, *Centrelink Strategic Framework*; and
- there were guidelines available on developing the plans and a quality assurance process was in place.

Appropriate level of management involvement

2.18 The 'Leadership Teams' comprising key managers within the business units were primarily responsible for business planning and financial planning in three of the four business units examined in this assessment. In the remaining business unit, a subset of this group had this function. The ANAO considers that these officers are at the appropriate level of management for this responsibility. The key strategic planning documents that the business units complete on an annual basis are the Customer Service Improvement Plans (CSIPs). Within the customer service network there was a flow down of the business unit plans to Customer Service Centre (CSC) level, with some CSCs devolving this to team level, indicating appropriate cascading of plans to operational units.

Alignment with corporate strategic planning

2.19 All business unit managers contacted by the ANAO were aware of Centrelink's strategic direction and its objectives and demonstrated alignment of their Area and CSC level customer service improvement plans with this higher level planning, thus satisfying this criteria.

Guidelines and quality assurance

2.20 While the strategic planning process in business units is recognised and undertaken as a key function and, as stated in the previous paragraph, CSIPs are aligned with the *Centrelink Strategic Framework* not all had measurable, or at least quantitatively assessable, key performance indicators. The ANAO was advised that NSO staff are available to provide assistance to the business units. In addition there are guidelines available to the business units through the Centrelink Intranet on the development of these plans. However, in the ANAO's view, these would not give sufficient guidance to business unit managers in relation to the methodology for determining appropriate performance indicators and/or information.

Table 2.1**Strategic planning criteria and findings**

<i>Main activities</i>	<i>Better Practice Criteria</i>	<i>Centrelink performance</i>
1. Overall quality		
Ownership and accountability	<p>Staff behaviour influenced by top down target setting, bottom-up participation and by focus on the customer and market, such that plans are consistent with shareholder expectations and with those of other members of the value chain.</p> <p>The organisation's top leaders are actively involved in the strategic planning process. Because of this, they "own" the plan and are more able and willing to communicate it to the rest of the organisation.</p> <p>Top executives and managers should agree to support all agency goals, objectives and strategies. Consensus comes from involving top leaders in the process and making the trade-offs that everyone can live with, all with the objective of unity towards goals.</p>	<p>✓ Centrelink's "Strategic Framework" is constructed with extensive client, customer, stakeholder and staff consultation and its focus is well understood by all.</p> <p>✓ There is clear ownership of the Centrelink 'Strategic Framework'</p> <p>✓ The Guiding Coalition plays a valuable role in ensuring Centrelink's "Strategic Framework" reflects common goals.</p>
Approach	Strategy jointly developed between operational delivery and corporate support business units with close integration of the investment approval processes.	✓ This is achieved through the Guiding Coalition and the Business Improvement Committee.
Link with other planning processes	Clear separation of processes within a fully integrated planning framework. Direct link from strategy through operations review/budget to forecasts.	✓ The various elements and levels of the planning process are clearly defined.

Main activities	Better Practice Criteria	Centrelink performance
Structured environmental scanning	A structured process of considering the impact and potential impact of external influences on the organisation's operations and strategies.	✓ Centrelink undertakes a formal process of environmental scanning to support its strategic planning processes. This is managed by the Strategic Team and provided a structured mechanism for assessing the impact of internal and external influences on Centrelink's operations and its strategies. It is actively used to support strategy development.
Inputs from customers and suppliers	Major external customer and supplier strategies reflected in the strategy.	✓ The Strategic Planning process takes account of the objectives of client agencies, customers and staff.
Robustness and durability	<p>Internal and external focus with no inconsistencies with key business units.</p> <p>Annual updates focus on areas where major market or product dislocations have been anticipated rather than unexpected changes in assumptions that are difficult to explain.</p>	<p>✓ The Guiding Coalition plays a valuable role in ensuring Centrelink's "Strategic Framework" and common goals are consistent.</p> <p>✓ Centrelink generally has a good understanding of customer service delivery trends and their impact on plans, recognising some, such as call centre and internet delivery, are difficult to predict and feature high variability.</p>
Cyclical, structured process	This process is cyclical and is a formal part of the organisation's budget preparation process.	✓ The strategic planning process is cyclical and linked to financial planning and performance measurement.
A central planning committee	Made up of the CEO and other key agency executives. This is an exclusive group—only the top "movers and shakers" should be on it. One reason is that the committee has to set priorities among the goals and budget requests proposed by agencies. Too many participants in goal setting can mean too many "top" priorities.	✓ The Guiding Coalition fulfils this role, supported by the Business Improvement Committee and the Finance and Resource Management Committee.

Main activities	Better Practice Criteria	Centrelink performance
Investment inputs	<p>Cashflow impact of major projects recognised and investments managed according to key financial targets.</p> <p>Major projects not in strategy only actioned in exceptional circumstances.</p> <p>Strategic planning fully co-ordinated with investment approval process.</p>	<p>✘ The impact of business improvement projects on customer service delivery is not quantified on an individual project basis.</p> <p>✓ This is managed through the review and approval of project business cases.</p> <p>✓ The Business Improvement Committee is a key advisory body in the strategic planning process.</p>
A system for measuring progress	Both for agency plan implementation and performance toward goals. This should be tied in with uniform or at least compatible agency information and financial management policies, procedures and systems.	✓ Centrelink has balanced scorecard performance measurement system in place that monitors performance against key indicators linked to the goals set out in the Centrelink 'Strategic Framework'. A six monthly Strategic Outlook Report is produced detailing environmental trends and performance trends against Centrelink's defined goals.
Feedback	Formal balanced feedback at the appropriate times during the process and at the end of the process.	✓ Achieved through the Balanced Scorecard and individual performance evaluation.
Sanctions and rewards	Management rewards system closely linked to performance measures. Reward and sanction not only for making progress and hitting targets, but also for following the strategic planning process.	✓ Performance Measurement for individuals, teams and business units is tied to the Centrelink 'Strategic Framework'.
Benchmarking	Structured, ongoing benchmarking program with best in class partners focused on improving performance, on key goals, both qualitative and quantitative.	✘ Centrelink is in the early stages of establishing an external partner benchmarking program. There are examples of good use of benchmarking in the organisation but there is not a coordinated approach.

<i>Main activities</i>	<i>Better Practice Criteria</i>	<i>Centrelink performance</i>
2.Planning assumptions and guidelines		
Procedures	Clear procedures and timetable result from joint consultation between corporate and business units and are reviewed or improved each year.	✓ Consultation processes are sufficient.
Guidelines and targets	Appropriate guidelines developed relevant to the business units Targets discussed and agreed in advance between board and business unit representatives. Comprehensive briefing sessions held at each level to deploy targets.	✘ There is advice on the approach and principles to be observed, but no comprehensive guidelines for business unit strategic planning, although business units are involved in the corporate planning process and in setting targets.
Frequency/ planning horizon	Planning horizon appropriate to business needs. Implications of major dislocations on strategy evaluated as they arise.	✓ Sufficient evaluation carried out.
Consistent assumptions	Corporate and business unit assumptions fully consistent.	✓ The Centrelink “Strategic Framework” forms the basis for all business unit strategic planning.

2.21 The ANAO found that there was no requirement for these plans to be subject to quality assurance through, for example, approval by the next level of responsible management. Some were, however, informally submitted to individual NSO executive managers for information and feedback.

2.22 While the ANAO found that guidelines and quality assurance procedures were currently in need of improvement, Centrelink has advised that it plans to revise the CSIP process during the finalisation of its latest Business Plan.

Conclusion—business unit strategic planning

2.23 At the business unit level, the ANAO found that the strategic planning processes involve the key relevant managers and reflect the corporate strategic objectives. However, the effectiveness of these processes could be improved by providing more guidance on the methodology to support the unit managers in the processes, as well as quality assurance of the resulting plan through the provision of systematic feedback from Centrelink’s executive management.

Financial planning

2.24 The ANAO assessed the performance of the Centrelink financial planning process against a better practice model⁶. The criteria and the ANAO’s findings are described in Table 2.2.

2.25 The financial planning arrangements indicate that Centrelink had achieved better practice in many areas. However there were areas where some non-business critical concerns were identified. These include:

- much of the interface between the corporate financial plan and Infolink, Centrelink’s financial and human resource management information systems is manual or requires manual intervention and reconciliation, resulting in inconsistencies in assumptions made and supporting data used for planning purposes; and
- as with strategic planning at the business unit level, there is a lack of comprehensive guidelines for business units in developing their financial plans which complement their CSIPs. The impact of such guidelines on resource allocations by Areas, the key function of financial plans at this level, is discussed in Chapter 3.

⁶ The criteria for assessment have some parallels with the strategic planning criteria, but reflect the operational function of the financial plan.

Conclusion—financial planning

2.26 The ANAO concluded that Centrelink's corporate financial plan and planning process were effective in that they reflect many features of better practice. In particular, the financial planning process in business units is supported by highly functional planning tools in the Infolink FMIS. This conclusion is, however, limited to the processes themselves and the critical issue of the accuracy of the costing approaches which underpin the financial planning is discussed in Chapter 3.

Table 2.2
Financial planning criteria and findings

<i>Main activities</i>	<i>Better Practice Criteria</i>	<i>Centrelink performance</i>
1.	Overall quality	
Ownership and accountability	Financial plan ownership by those responsible for outcomes. Direct accountability for financial plan items tied to specific managers.	✓ Budgets are allocated in accordance with Centrelink's accountability framework to business unit and cost centre managers.
Consistency with strategic plan	Financial plans are prepared according to management directives and support corporate objectives and policies.	✓ The Financial plan reflects key strategic goals in the allocation of financial resources.
Challenges costs	Zero based budgeting approach requiring all costs to be justified each year.	✓ While certain corporate costs are not zero-based or reviewed/ benchmarked each year, such as non-generic Area costs, these are relatively minor.
Reflects operations	Financial planning based on operational statistics.	✓ Financial planning reflects service level data.
Monitoring	<p>Key variances are identified promptly and communicated throughout the organisation.</p> <p>Business reasons, not accounting explanations for variances are identified and appropriate modification to the forecast is initiated.</p> <p>Financial plan is not modified other than for Federal Budget initiatives.</p>	<p>✓ The Infolink system has good management reporting capabilities. Implementation of this is yet to be tested following installation of the system.</p> <p>✓ Centrelink generally has a good understanding of key operational drivers and their impact on plans. Any changes causing variations to plans are factored into future plans.</p> <p>✓ Centrelink updates its financial plan only for Federal Budget initiatives and internal reallocation of resources. There is a formalised process to ensure this is reflected in AIMS and Infolink and that business units are aware of changes affecting them.</p>

Main activities	Better Practice Criteria	Centrelink performance
Cyclical, structured process	The process is regular and a formal part of the budget preparation process.	✓ There are formal quarterly budget reviews. These and the annual process are institutionalised.
A central planning committee	Made up of the CEO and other top executives, this should review and approve financial plan.	✓ The financial plan is ratified, scenarios considered and decision making conducted by the Guiding Coalition.
2. Planning assumptions and guidelines		
Consistent assumptions	Ready access to common set of financial parameters, assumptions and budget drivers.	✓ The Infolink planning tools provide this for key cost elements including staff costs and assets.
	Corporate and business unit assumptions fully consistent.	✗ Corporate and business unit assumptions are not always consistent.
Clear guidelines	Formal schedules for preparation and review of all financial plans.	✓ There is a schedule for the preparation of financial plans by Centrelink and business units.
	Appropriate guidelines developed relevant to the business units.	✗ The guidelines to support the business unit financial plans do not promote consistency.
Timeliness	Plans are updated on a timely basis.	✓ Plans are prepared as soon as practicable following the Federal Budget.
Automation of process	Automated interfaces to automate financial planning processes.	✗ While there are some automated processes in Infolink to facilitate business unit planning and consolidation, there are numerous manual links to the corporate financial planning process.

<i>Main activities</i>	<i>Better Practice Criteria</i>	<i>Centrelink performance</i>	
3. Tools & techniques			
FMIS used to automate process	Budgeting can be performed using the general ledger tools or on PCs and easily uploaded to the general ledger.	✓	Infolink, as a general ledger tool, provides this functionality.
	Computer support is available to provide assistance in the iterative process associated with the determination and review of company budgets.	✓	The Infolink planning tools allow for numerous scenarios to be analysed.
	Budgets are maintained on the system and monitored on the basis of the accounting periods.	✓	Infolink facilitates the division of annual financial plans to months and offers an array of management reporting options. The implementation of these has only recently commenced and cannot yet be evaluated.
Simulation	Robust business simulation models used.	✓	Centrelink has comprehensive models of service delivery workload and cost.
	Full “what if” capability available in models.	✓	These models are capable of considering and analysing scenarios.
4. Process improvement			
Procedures	The planning process mapped and documented. Action plan developed to improve strategy review process (close to completion of process) and implemented.	✗	The planning process is not mapped and there is no formal process for the assessment of the planning process.
Efficiency	Highly efficient process allowing management to concentrate on value adding elements. There is no rework.	✗	The lack of integration creates inconsistencies and inefficiencies due to manual inputs.
Integration	Integration of capital and expense budgeting forecasts and systems.	✓	These are fully integrated via the Infolink planning tools.

Overall conclusion—business planning

2.27 The ANAO concluded that Centrelink's business planning processes are essentially sound. The strategic planning process and the Centrelink *Strategic Framework* are effective in analysing the organisation's strategic position with respect to its stakeholders and the financial planning process at Centrelink exhibits many features of better practice.

3. Centrelink's Use of Management Information to Underpin its Business Goals

This Chapter examines Centrelink's approach to using management information to allocate resources to its customer service network and to manage the performance of this network in order to achieve its strategic and financial goals.

Centrelink's productivity goal

3.1 As outlined in Chapter 1, Centrelink has been required to reduce its costs while maintaining the service delivery standards that are specified in its agreements with client departments. To assist in delivering this goal, Centrelink is using a range of approaches to decrease its costs and increase its efficiency including:

- a 20 per cent reduction in staff numbers over three years to the end of 2000–01. The impact on staffing numbers, as outlined in Centrelink's Financial Plan is at Table 3.1; and
- a number of productivity improvement projects to address the impact of staff reductions.

Table 3.1
Planned staffing reductions —cumulative effects

	Base Staffing Numbers ⁷	Staffing variation by number and percentage change		
		1998–99	1999–2000	2000–01
National Support Office	2119	-439 (-21%)	-728 (-34%)	-898 (-42%)
Area Support Offices	3 450	-447 (-13%)	-948 (-27%)	-991 (-29%)
Customer Service Centre	14 852	-1 764 (-12%)	-2 834 (-19%)	-2 921 (-20%)
Call Centre Network	2 908	-50 (-2%)	-190 (-7%)	-205 (-7%)
Total	23 329	-2 700 (-12%)	-4 700 (-20%)	-5 015 (-21%)

3.2 Implementing and evaluating such major business initiatives requires sound management information, particularly on costs. Without information that is accurate, timely and relevant, it would be difficult for Centrelink's managers to make decisions about the most appropriate internal allocation of resources, particularly salary resources, to reflect

⁷ Based on ASL Pay 1 (1998–99).

workloads in its customer service network⁸. This network employs 90 per cent of Centrelink's staff. Management information is also required to monitor the financial and service delivery impacts of Centrelink's productivity initiatives.

3.3 With these two issues in mind, the ANAO examined how Centrelink used management information to:

- estimate customer demand and the cost of each service type to assist its managers to allocate salary resources to its customer service network; and
- monitor progress towards its business goals, particularly with respect to the performance of its customer service network given the potential impact of Centrelink's staff reduction program and associated productivity projects. In examining this aspect of the audit, the ANAO recognises that Centrelink has a Balanced Scorecard as its primary performance management tool. This is further discussed at paragraphs 3.57 to 3.59.

Centrelink's devolved approach to allocating resources to its customer service network

3.4 The allocation of resources by Centrelink to its Area Support Offices (ASOs) and Customer Service Centres (CSCs) is illustrated in Figure 3.1. This responsibility has been devolved to:

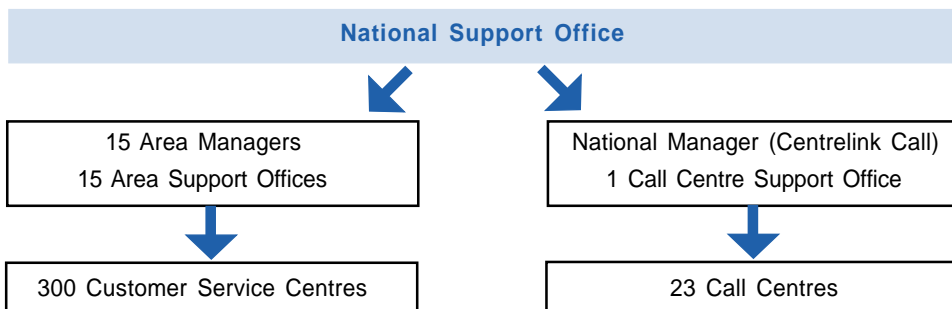
- Centrelink's National Support Office (NSO) which provides a resource allocation to individual Area Managers; and
- Area Managers who, in turn, allocate resources to support the service delivery arrangements of the ASO and the CSCs for which they are accountable. These arrangements vary to reflect the responses of local managers to the needs of their local communities.

3.5 The National Manager of the Call Centre Support Office provides a similar role to that of the Area Managers for the Call Centre network.

⁸ The customer service network comprises Customer Service Centre (CSC) outlets grouped into Areas and a network of Call Centres. (see paragraphs 1.3–1.4 for more details).

Figure 3.1

Allocation of resources to Centrelink’s customer service network



3.6 All organisations, whether private or public, require information to plan and guide their operations and to assist managers to make decisions. To support its decision making, Centrelink has developed and used models to estimate both its total costs and the unit cost of providing individual services and used this information as a basis on which to allocate resources to its Areas.

3.7 For its first year of operation, 1997–98, Centrelink used a Regional Funding Model (RFM)⁹ developed by the Department of Social Security (DSS) as the basis for distributing resources for operational activities to its customer service network. These allocations were supplemented by resources for management overheads to Areas, based on the organisational structure of the Areas and on the functions of an ASO.

3.8 Centrelink advised the ANAO that it recognised that this approach to resource allocation did not necessarily reflect the workloads in the network, and unduly ‘rewarded’ Areas that opened more offices. In 1998–99, Centrelink introduced its Services Costing Model (SCM) to allocate salary resources to its Areas based on staff workload. A revised version of this SCM model was again used for the 1999–2000 resource allocation.

⁹ Audit Report No.4 DSS: *Regional Office Resourcing and Benefit Processing*, Dept Social Security, ANAO 1995, Canberra.

Allocation of resources by the NSO to Areas

3.9 The ANAO assessed the data, methodology and SCM model (current at the time of the audit fieldwork) used to support Centrelink's managers allocating resources, to determine the effectiveness of this approach, particularly whether the tools provide sufficiently accurate estimates of service demand and costs. The ANAO examined whether Centrelink's resource allocation decisions are:

- fully integrated with Centrelink's financial planning. Use of cost information to assist resource allocation decisions should be an important means by which Centrelink's financial plan is implemented;
- founded on accurate estimates of staff workload. Estimates of customer demand and unit costs of services that make up that demand should be undertaken using reliable and accurate statistical techniques;
- derived from the full unit costs of each distinct service type. Full unit costs for resource allocation purposes, in addition to providing for direct salary resources, should also include an amount for the indirect overheads consumed to produce each Centrelink service; and
- based on comparative unit costings between Areas, CSCs, other business units and, where available, against external benchmarks. Such information ensures that geographic and demographic characteristics that contribute to cost differences can be identified and allowed for in allocation decisions, as well as providing Centrelink's managers with a standardised basis on which to compare their financial performance against other units.

Resource allocation should be integrated with financial planning

3.10 In examining the integration of resource allocation with financial planning the ANAO concentrated on establishing whether:

- key managers are involved in both financial planning and resource allocation decisions; and whether
- Centrelink had the tools to support its resource allocation processes.

3.11 The ANAO found that the overall amount to be allocated to the Areas for salaries is a key item within Centrelink's Financial Plan, and subject to consultation with Area Managers through the Guiding Coalition (GC).

3.12 To determine the individual allocations to Areas, Centrelink currently uses the 1999–2000 version of its SCM. This model calculates allocations based on unit costs that are determined through workload surveys of staff in the CSCs and forecasts of customer demands on an Area basis.

3.13 The ANAO concluded that resource allocation within Centrelink is adequately integrated with financial planning which itself involves key relevant managers, supported by functional planning tools. While the ANAO recognises that the SCM is a better tool than the previous RFM, it considers that further developments should be made to improve the accuracy of the inputs that drive the SCM, particularly the statistical estimates of staff workload and expected customer demand. These are discussed below.

Estimates of staff workloads should be accurate

3.14 One important means of determining Centrelink's unit cost per service is by collecting information on the percentage of time spent by individual officers administering each service. To obtain this 'effort' data, Centrelink has conducted three staff surveys in selected service outlets over the past two years: in November 1997, March 1998 and September 1998.

3.15 The ANAO found a number of weaknesses in the sample design and analysis of these surveys. For example:

- owing to poor response rates, there is a significant risk that the results of these surveys are statistically biased; and
- stratification in the sample design was not effective.

3.16 The Australian Bureau of Statistics in a consultancy report to Centrelink¹⁰ stated of the November 1997 and March 1998 surveys: *'It was not possible to determine how representative the responding staffing were of the target population.'* The results of the third staff time survey conducted in September 1998 were also influenced by a high level of non-response in CSCs of particular characteristics (namely inner metropolitan). While Centrelink has advised that the primary cause of the non-response was due to industrial action, the ANAO considers that difficulty in accurately filling out these surveys (described in paragraph 4.17) would have been a compounding cause.

3.17 The stratification used for the third survey was based on Areas, rather than strata with relatively homogeneous populations. Centrelink intended to undertake analysis using post-stratification techniques on a limited number of geo-demographic variables, but was unable to proceed with this given the response rate problems. An analysis undertaken by the ANAO as part of the audit indicated that a stratification based on a combination of urban/rural catchments, ATSI populations and DCALB

¹⁰ *Costing Delivery of Services to Customers—A report for Centrelink.* Prepared by the Statistical Consultancy Unit, Australian Bureau of Statistics, June 1998.

populations, would give more accurate results for a given sample size. Such strata have relatively homogeneous populations. Such analysis, although preliminary, provides an indication of the kind of analysis that Centrelink itself should undertake to improve the initial design of its sample surveys, further than is possible with post-stratification techniques.

3.18 For the SCM to calculate staff workloads in each Area, Centrelink estimates customer demand by applying statistical forecasting techniques to existing customer numbers and new claims for each service type.

3.19 The ANAO considers that these projections, undertaken using a standard forecasting approach, would provide adequate results. However, more statistically reliable results could have been ensured if the differences between adjacent data points over time had been modeled rather than the data points themselves, and by forecasting within homogeneous strata such as those suggested in paragraph 3.17.

Unit costs should reflect all components consumed

3.20 To translate the staff survey data into unit cost per service, the SCM applies salary costs to the percentage of staff time by level associated with each of Centrelink's service types.

3.21 The ANAO found that the salary costs for direct service delivery required to produce a service in CSCs and similar customer activities within ASOs are not separately calculated in the 1999–2000 SCM. Centrelink's allocation to its Areas was based on the unit salary costs for the CSCs rather than for combined CSCs and ASO costs, as the third staff survey did not collect the information from ASOs to allow combined costs to be determined.

3.22 There is an underlying assumption that the direct salary costs for the CSC component are proportional to those for the ASO component. The ANAO considers that these unit costs should reflect the resources consumed by Areas as a whole, rather than through CSC unit costs alone.

3.23 The ANAO also found that no separate indirect (that is, management and support function) cost component was included in the 1999–2000 SCM. Each Area's total funding for salary overheads was proportional to its funding for salary costs associated with direct service delivery. The SCM assumes that the resources consumed for management and support are proportional to operational workloads, irrespective of whether an Area is supporting a highly decentralised population requiring a large number of CSCs or, conversely, is supporting a centralised population requiring less CSCs. This approach does not take into account the possibility that ASOs, CSCs, and individual services may disproportionately consume overheads.

3.24 Centrelink has advised the ANAO that there was a deliberate decision to allocate resources in this way to ensure that Areas with, for example, a high proportion of CSCs, did not get an exaggerated allocation of resources to compensate them for high management overheads. Instead, Areas are expected to generally manage their overheads. Centrelink has advised that most management and support functions resource consumption varies with customer numbers rather than the number of outlets, and those that vary with numbers of outlets are considered by Centrelink not to have a significant impact on the resource requirements of an Area. Centrelink has further advised that overhead costs for exceptional circumstances, are reviewed and supplemented on a case by case basis.

3.25 The ANAO considers that this approach does not allow Centrelink to systematically identify overheads leading to high/low cost Areas and to take these into account when allocating resources. For example, Areas with decentralised populations may not be fully compensated for the overheads required to maintain a large number of small service outlets relative to their population base. These Areas could decide to close outlets that, if considered on a national basis to meet service delivery requirements, would have been resourced to stay open. Equally, Areas with centralised populations may decide to open more outlets than are really required to meet service delivery standards.

3.26 A more appropriate approach would be for the SCM model to attribute the indirect salary costs of ASOs and CSCs according to the resources they consume to implement, deliver and monitor individual services.

Unit costs should be based on geo-demographic factors that affect workload

3.27 An identification of the effect of geo-demographic factors on unit costs provides a basis for distributing resources that more accurately reflects that costs of providing services to particular customer segments. Importantly, once the factors that significantly impact on service delivery costs are taken into account, unit costs across business units can be compared, allowing individual managers to benchmark their financial performance against other units and to identify better practice. This requirement is particularly acute in Centrelink, which needs to evaluate its performance across 15 Areas, 300 CSCs and 74 services.

3.28 The ANAO found that this capability in Centrelink was reduced by the estimation techniques used to determine the SCM unit costings. In particular, the unit costings for service types from the SCM are based

on national averages, rather than unit costs for service delivery in Areas or CSCs with individual characteristics.

3.29 The SCM applies the national workload costings equally to each Area with an adjustment to allocations based on only three factors: remote Aboriginal and Torres Strait Islander (ATSI), diverse cultural and linguistic background (DCALB), and rural/remote populations.

3.30 The ANAO found that there is limited identification of, and allocations based upon, geo-demographic factors that affect workload. A more effective means of allocating resources to Areas with differing workloads resulting from geo-demographic factors would be to stratify the sample to allow an estimate of the impact of these factors. Different unit costs could then be produced, as appropriate, as a basis for allocating resources to the network.

Conclusion

3.31 The ANAO concluded that the effectiveness of the resource allocation approach to match resources to workloads at the Area level, has been reduced by a number of factors, including:

- weaknesses in the sample surveys' design and the analysis to produce unit costings, indicating to the ANAO that these results were statistically unreliable;
- no account taken of the possibility that Centrelink's Areas may need to disproportionately consume overheads to maintain service standards; and
- use of unit costs based on national averages which do not systematically identify variations in the cost of service delivery to particular communities or groups of customers based on geo-demographic characteristics.

3.32 In short, the accuracy of the resource allocation process has been reduced by problems associated with collecting and estimating unit cost data.

3.33 There is a range of costing approaches available. Determining the appropriate method to collect and determine cost data requires careful analysis of the nature of an organisation's operations. Centrelink has been exploring the use of Activity Based Costing (ABC) to identify costs of its service delivery components. It has advised that it is addressing the statistical issues identified in the audit in a further staff time survey undertaken as part of its development of ABC costings. Centrelink's progress in introducing its ABC system is discussed in Chapter 4.

Allocation of resources by Area managers to CSCs

3.34 The ANAO reviewed the resource allocation approach by Areas to CSCs on a similar basis to that used to assess the allocation approach by the NSO to Areas; that is, management involvement and the quality of the data and models used to support decision-making, particularly the use of unit costings.

3.35 The allocations to Areas from the NSO using the 1999–2000 SCM varied between \$15.4 million and \$56.7 million, with an average allocation to an Area being \$40.0 million. Having received this annual allocation, Area managers, with other key local managers, typically allocate resources to support the operation of their ASO (including the Compliance and Review functions within their Area) and then allocate the balance to the CSC's for which they are responsible. While the ANAO found that there was some sharing of methodology between Areas, there were a variety of approaches used for distributing resources within Areas and no national guidelines. For example, the basis for determining funding for ASO operations included:

- zero-basing costs;
- historical allocations adjusted for the appropriate efficiency dividend; and
- setting a target to ensure that ASO and Compliance and Review functions together were limited to 15 per cent of the overall Area budget.

3.36 As a result of these different approaches, the percentage of funding for ASO operations (excluding Compliance and Review) ranged from 6.5 per cent to 14.2 per cent. Centrelink has advised that this variation is due to different functions being undertaken within the ASO as, for example, functions are carried out on behalf of other Areas or outsourced to the CSC level. The ANAO considers that, while it is possible that this accounts for some of the variation, the range of the variation could be due to lack of economies of scale within smaller Areas. The SCM largely does not take into account such economies of scale in allocating resources to the Areas. An investigation by Centrelink to identify and benchmark the costs of undertaking ASO type functions, would give it the information required to allocate resources in line with workloads and provide quantitative information on what functions, if any, should be centralised across ASOs to achieve substantial efficiencies.

3.37 Following the allocation for ASO operations, Area managers usually distribute resources to the CSC's for which they are accountable:

- based on unit costs from the SCM; and
- using outputs from Infolink, Centrelink's financial and human resource management information system, which allows Area managers to estimate the outcomes of various allocation regimes to ensure that overall resourcing does not over-spend or under-spend the Area's budget.

3.38 The ANAO was advised that the SCM was developed primarily to distribute resources to Areas. In particular, the SCM does not include many of the details required by Area Managers to allocate resources to CSCs. To overcome this limitation, Area managers had adapted their own versions of the SCM model, mainly drawing on unit costs from the 1999–2000 SCM and using distributions between the various functional units from the previous (1998–99) version of the model. Irrespective of the weaknesses in the estimates of the unit costings already identified in the previous section, the ANAO found that many of the applications of the unit costings were being applied inappropriately at the Area level. For example, funding for generic specialists (included as part of the SCM unit costings) was often allocated prior to applying the SCM unit costings, effectively giving greater funding weight for specialists compared with customer service officers.

3.39 There are other examples of variations in approaches to allocating an Area's allocation. In particular, the ANAO identified the following practices for the allocation of overheads to the CSCs within an Area where managers had:

- only allocated overheads for small offices;
- allocated overheads to each office, with bigger offices incurring larger (but proportionally smaller) overheads compared with minor offices; and
- made no provision for management overhead allocation.

Conclusion

3.40 The ANAO found that the resource allocation by Areas involved key managers and was supported by Centrelink's management information system, Infolink. However, the ANAO concluded that the effectiveness and efficiency of the allocation had been reduced by the absence of guidance and appropriate modeling tools on a national basis, leading to Areas developing their own models for resource allocation that have resulted in inappropriate applications of SCM unit costs.

3.41 The development of guidelines in consultation with Area managers and the development of associated decision making tools would address this issue. Such guidelines should provide Area managers with sound advice on the allocation of resources irrespective of the distribution of functions within and across respective Areas.

Recommendation No.1

3.42 The ANAO recommends that Centrelink develop and promulgate to Area managers, user-friendly guidelines on the methodology and costings they are to use for the allocation of resources to Customer Service Centres (CSCs) commencing with the 2000–01 financial year allocation.

Centrelink response

3.43 Agreed. Centrelink accepts the need to continue to provide guidelines and to maximise national consistency across Australia, but sees final resource allocation decisions continuing to be based on local conditions in Areas. The national distribution model will be provided to all Area Managers and enhanced at the local level to ensure this flexibility.

ANAO Comment

3.44 The ANAO accepts the need for the guidelines to provide Area managers with flexibility in decision-making to suit local conditions. Notwithstanding the requirement for flexibility, the ANAO considers that the current national distribution model, the SCM, would need adaptation prior to release to Area managers to ensure that it is suitable for resource allocation to the customer service centre level.

Resource allocation to Call Centres

3.45 Centrelink's Call Centre (CC) network comprises 23 centres, along with the CC Support Office. The total salary allocation for the CC network in 1999–2000 was \$127.6 million. CCs are a virtual network and have a number of series of queues¹¹ that callers enter depending on the phone number that they dial. If the queue from nearest CC does not have an available place, the call is transferred to the same queue in a different CC.

3.46 Since the former DSS introduced CCs, the growth in call demand has reflected growth in the CC network. The ANAO recognises, therefore, that call demand is elastic and based on the experience of service that a

¹¹ For example: Disability, Sickness and Carers (DSC); Employment Services (EMS); Family Payments (FAM).

customer receives—that is, little wait time and no busy signals is likely to lead to more frequent demand for service. Consequently, allocating resources to CCs requires an alternative approach to that used for the Areas which is based on projected customer numbers and new claims; namely, resourcing across queues rather than individual CCs, and ensuring that resource allocations are such that call wait times and busy signals are balanced across queues and throughout the year.

3.47 The ANAO found that the following 1999–2000 resource allocation and management practices were being undertaken by the CC network within an appropriate decision-making structure:

- decisions on overheads aimed at maximising the number of operating staff;
- the number and allocation of operating staff based on the distribution of workloads across queues;
- the identification of peak periods and related decision-making regarding staffing for these periods;
- management of leave credits and leave arrangements;
- regular review of the allocation by queue and call centre; and
- reallocation of resources throughout the year to better match demand.

Conclusion

3.48 The ANAO concluded that the resource allocation and management within the CC network were effective. The approach taken assisted resources being allocated and reallocated to reflect workload demands and was efficient in that there is a single, coordinated approach across the whole of the CC network.

Monitoring Centrelink's progress towards its business goals

Performance management

3.49 Performance management is based on monitoring actual performance against pre-determined standards that enable ready assessment of performance in terms of effectiveness, efficiency and service quality. Centrelink requires such information to monitor its progress in achieving its financial goals and manage its staff reduction program within its overall framework of meeting its strategic goal of service delivery to standards specified in agreements with client departments.

3.50 Performance information should also be able to be disaggregated, as necessary, for planning and decision making. Standardised performance information at the business unit level enables a clear match of relevant performance data to the appropriate level of responsibility.

3.51 The assumption underlying Centrelink's Financial Plan is that business improvement initiatives will offset staffing reductions and deliver efficiencies. The ANAO considers that the adoption of the following better practice principles¹² with regard to performance information and its use, would assist Centrelink achieve its financial goal while meeting service requirements:

- Appropriate senior management overview and coordination. This ensures assessment and monitoring of the means of achieving Centrelink's financial goal—the staff reduction program and associated productivity improvement projects.
- Performance information, which compares planned with actual outcomes. This makes it possible to assess the effectiveness of Centrelink in achieving the goals set out in its Financial Plan.
- Performance measures of key service delivery attributes—quality, quantity and full unit costs. This makes it possible to assess Centrelink's efficiency in producing its services.
- By underpinning the performance measures and/or assessments at the organisational level, with management information that is used to analyse and monitor the performance of its customer service network. Use of comparative performance data across ASOs, CSCs, other business units and, where available, against external benchmarks would allow Centrelink to compare performance across business units and assist local managers to identify and adopt better practices.

Senior management overview of financial goals

3.52 The ANAO sought to determine whether there is appropriate senior management overview to coordinate, assess and monitor Centrelink's staff reduction strategy adequately, including the Voluntary Redundancy (VR) program, and associated productivity projects, such as the initiative to reduce backlogs at the CSC level.

¹² Drawn from: DoFA (1998) *Specifying Outcomes and Outputs*.

3.53 These projects are considered by the following organisational structures within Centrelink:

- Guiding Coalition (GC);
- the Business Improvement Committee (G3); and
- the Business Governance Council (BGC).

3.54 The ANAO found that the role of GC in approving all projects provides a structure to assist the coordination of decision making. The key organisational vehicle for providing the senior management overview of internal productivity improvement projects, particularly those that require funding, is the G3. The G3 will be supported by the newly formed Business Governance Council which will develop business priorities.

3.55 The ANAO considers that there is an adequate management overview to coordinate, assess and monitor the productivity improvement projects.

Planned outcomes should be compared against actual outcomes

3.56 The ANAO assessed whether Centrelink had adequate performance information to compare planned with actual outcomes to assess the effectiveness of its business planning.

3.57 In late 1997, the Centrelink Board decided that a Balanced Scorecard methodology would be Centrelink's prime performance management tool and key accountability instrument. Further refinement and development of the Balanced Scorecard was undertaken during 1998–99 and 1999–2000. The 1998–99 and 1999–2000 Balanced Scorecard measures performance against five broad Key Result Areas (KRAs) to reflect Centrelink's six strategic goals:

- Client Partnerships;
- Customer and Community;
- Centrelink People;
- Cost Reduction/Efficiency;
- Innovation; and
- Best Practice¹³.

¹³ Best Practice is not measured individually, as it is the sum of the total achievement against the other five goals.

3.58 Each KRA is broken down into a series of performance measures. Performance targets are established for each measure, which reflect the service expectations of Centrelink's client departments or internally determined performance benchmarks. In its 1998–99 Annual Report, Centrelink reported that it had exceeded the key performance indicators for Client Partnerships under the 1998–99 Balanced Scorecard.

3.59 In its 1998–99 Annual Report, Centrelink reported that it had achieved a successful outcome against its Financial Plan. Staff reductions were a key instrument in Centrelink's plans to meet its financial goals, and Centrelink reported that it reduced its staff by 2695, in line with its planned reduction of 2700 as outlined in Table 3.1. Centrelink's expenditure for the financial year was closely in line with its planned expenditure.

3.60 In addition, the 1998–99 Annual Report also stated that staff redundancies were implemented without a reduction in service standards owing to a reduction in CSC work backlogs, an associated reduction in CC demand and more recently the establishment of its 'one-to-one' service.

3.61 The ANAO found that Centrelink has reported actual outcomes against planned outcomes, and that these indicate that Centrelink's business plans have been effective to date.

3.62 Going forward, Centrelink will require ready access to relevant management information, particularly on costs, to support its managers to implement and evaluate major business initiatives. In an environment of continuing funding constraint, Centrelink will also need reliable management information to provide an assurance to Government and client departments that it has the capacity to maintain quality, cost effective service delivery.

Service delivery should be reported in terms of quantity, quality and full cost

3.63 Centrelink has also reported in its Annual Report against timeliness (quantity) and accuracy (quality) for the delivery of each service/payment type against the KRA for Client Partnerships. In 1998–99, this was the only indicator from Centrelink's Balanced Scorecard that was available at the CSC level. The indicators at the CSC level are being increased in 1999–2000. Using this indicator in 1998–99, Centrelink reported that it had:

- delivered most payments at better than the timeliness standards agreed in its Business Partnership Agreements with client departments; and
- exceeded the 95 per cent accuracy target agreed with client departments for 1998–99.

3.64 While noting this positive result, the ANAO has identified issues with the timeliness and accuracy of information, which lessen the reliability that can be placed on the results. In particular, these relate to the PAC system data (see paragraph 3.72) and the average call wait time to measure call centre timeliness (see paragraph 3.84).

3.65 As indicated in the previous section, the current methodologies used by Centrelink to estimate unit costs for resource allocations and the input of data into these approaches have weaknesses. In particular, they do not systematically measure the variations in service delivery caused by local characteristics. In addition, while Centrelink's costing model measures the direct salary resources spent on each service at the CSC level, it does a poor job of attributing the consumption of overheads.

Management information to analyse and monitor the performance the CSC level

3.66 While noting that Centrelink's performance measures at the organisational level indicate achievement against its business plans, the ANAO assessed whether Centrelink had sufficient management information at the CSC level to undertake business analysis and performance monitoring (including the monitoring of risks associated with the productivity improvement projects). Such management information should allow Centrelink to compare performance across CSC's irrespective of the local service delivery arrangements and assist local managers to identify and adopt better practices.

3.67 The ANAO noted that Centrelink has a range of data available at the CSC level that would assist with performance monitoring. This includes:

- reports against service agreement standards of timeliness and accuracy from PC Prism;
- two performance measures on timeliness and accuracy data within the BSC. (These two measures contribute to the KRA for Client Partnerships and are the only data available within the BSC at the CSC level); and
- information on the quality of decision-making from the PAC system.

3.68 In the section entitled 'Allocation of resources by the NSO to Areas' in this chapter, we concluded that the unit costing information used internally is statistically unreliable at the national level, and not available at any greater level of disaggregation. This lack of comparable unit costing data means that there are significant limitations to the comparability of performance across CSCs.

3.69 Irrespective of this shortcoming, in order to test the sufficiency of the available data, the ANAO sought to determine whether the initiatives relating to Centrelink's financial planning had positive impacts on the CSC network, with no unintended negative affects.

3.70 To assess this risk, the ANAO sought to use Centrelink data to evaluate the impact of the voluntary redundancies (VRs) as part of the overall staff reduction program and the initiative to reduce backlogs at the CSC level. In order to undertake these analyses the ANAO requested a range of machine-readable data at the CSC level following advice on its availability from Centrelink. This included information on:

- staffing profiles, including numbers of FTE staff by level, years of experience, dates of separation for staff accepting VRs, and OHS claims;
- demographic and geographic profiles of customer service centres;
- customer numbers, new claims by service types;
- number of decisions by type per customer service officer for various time periods;
- number of actionable activities by type per 100 customers for various time periods;
- accuracy of decisions by type;
- levels of customer satisfaction;
- time from initial contact to appointment;
- accommodation type; and
- numbers of reviews undertaken.

3.71 Prior to undertaking the audit, the ANAO established the ready availability of these data sets with Centrelink. However, the ANAO experienced significant delays in obtaining key data sets, and some data was subsequently identified as not being available¹⁴. Centrelink has since advised that the delays and difficulties in meeting this request were because much of the data request was non-standard, requiring extraction through ad-hoc programming jobs at a time when expert staff were assigned to statutory and client priority work. In the ANAO's view, the data sets that it requested are central to Centrelink's effective management of its network, and therefore should be readily accessible within the agency.

¹⁴ This included data on 'waiting time to appointments' and 'decisions by type per customer service officer'.

3.72 The ANAO found that the quality of the data that was provided was such that its suitability for analysis was affected by the following:

- lack of data standards in both formats and naming conventions for CSCs, leading to difficulty in matching data for analysis across data sets;
- questionable quality of some data sets. In particular there have been a number of reports¹⁵ indicating that the data provided by Centrelink's Procedure and Accuracy Checking System (PAC) could not be used to test any impact of changes in quality of decision making arising from productivity initiatives. (Centrelink has advised that it intends to replace PAC with its Quality On Line System (QOL), which aims to address the identified problems with PAC);
- customer satisfaction survey results data, in line with the sample design, is not sufficiently statistically reliable at the CSC level to identify movements in customer satisfaction over time. (The sampling framework was designed to estimate at national level, rather than CSC level, movements in customer satisfaction); and
- results from data analysis required further significant information to assist interpretation (during the audit, Centrelink cautioned the ANAO regarding the interpretation of the results from the analyses it was planning to undertake).

3.73 The lack of accessible, reliable data in a workable format significantly curtailed the ANAO's ability to complete the statistical testing it set out to undertake on Centrelink's financial planning initiatives. This affected the ANAO's analysis of Centrelink's initiative to reduce backlogs to determine the financial contribution and management of risks associated with the project. In particular:

- the ANAO noted that while the average number of decisions per customer service officer had risen from 198 in September 1998 to 228 in June 1999, an improvement of 15 per cent. Centrelink has also advised that it has decreased its overall costs by 20 per cent over the same period. However, Centrelink does not have the costing information to determine the contribution, if any, of this particular productivity initiative to the financial goals; and
- the ANAO's assessment of Centrelink's management of risks associated with the project was based on careful statistical analysis but, given

¹⁵ Audit Report No. 20 1999–2000, *Special Benefit: Centrelink, Department of Family and Community Services*, Canberra; a joint FACS/Centrelink report on accuracy of Newstart new claim assessments in January 1999, and an August 1999 Centrelink Internal Audit report. ANAO (1999).

the data problems, the results should be regarded primarily as indicative, rather than statistically reliable. The analysis that was able to be undertaken, provides an indication that generally Centrelink has managed the risks associated with increasing productivity and decreasing backlogs within CSCs. The results however, highlight the need for such analysis to become a standard function in monitoring the impact and evaluation of such initiatives. The results indicate that the impact of stress on limiting productivity improvements, the identification of geo-demographic factors, and the impacts on productivity in CSCs with high turn-over levels of staff need further investigation.

3.74 The ANAO's proposed statistical analysis to evaluate the impact at the customer service centre level from the VR program was not undertaken given the difficulties with the data.

3.75 Centrelink advised the ANAO that when data analysis for business planning, monitoring and evaluation at the CSC level is undertaken by NSO, similar issues of data availability, quality and compatibility are encountered to those experienced by the ANAO, limiting the amount of such analysis.

Future plans for CSC data

3.76 During the course of the audit, Centrelink revealed plans, although at a very early stage, to draw together its CSC information into a data store, that would also include capacity to analyse the information. Centrelink plans that this data store, Performance Data Management System (PDMS), would be used as the basis for a Balanced Score Card, redesigned to include a greater number of CSC indicators.

Conclusion

3.77 The ANAO concluded that, while Centrelink reports it is meeting its strategic goals, the management information on which it bases its outcome reporting is not sufficient to provide a reliable assessment against its business plans at the business unit level. In addition, it would be able to achieve its goals more efficiently by using comparative data to monitor the performance of its business units at the Area and CSC level. The data that Centrelink has at the customer service centre level, has problems with availability, quality and compatibility. The shortcomings in its data at this level, have limited Centrelink's ability to analyse the performance of its CSC network; to monitor the implementation and impact of productivity improvement initiatives underpinning the achievement of financial and strategic goals; and to identify better practice to assist it in ensuring cost effective service delivery.

3.78 The ANAO considers that the development of a costing system with the functionality of ABC (discussed in Chapter 4), along with the planned PDMS, would improve Centrelink's capacity to manage the risks to customer service delivery from downsizing staffing levels and to evaluate the effectiveness of productivity improvement projects, either individually or appropriately grouped.

3.79 Centrelink has responded to the ANAO's view that better management information is required to monitor the implementation and impact of productivity improvement initiatives. In particular, Centrelink has emphasised that it is rarely possible to isolate in the integrated and decentralised network the impact of a single initiative, especially when accompanied by Budget initiatives, cyclical factors, local events and demographic change. Further, Centrelink has indicated that when a project is large and strategic enough, there is a post implementation review. The ANAO considers that, in developing a significant project or related group of smaller projects for funding approval, the management information required to allow Centrelink to monitor the progress of, and evaluate, such initiatives objectively, should be clearly identified. In the ANAO's view, this would allow Centrelink to improve management effectiveness of its projects by, for example, maximising the relative cost-benefits of the initiatives and ensuring that no unintended consequences of the project or project grouping are being incurred within Centrelink's dispersed network of offices.

Recommendation No.2

3.80 The ANAO recommends that Centrelink develop its capacity to analyse the performance of its customer service centre network; to monitor implementation of productivity projects; and to identify better practice, by improving access to its management data on customer service centres as well as by ensuring that these data are compatible and reliable.

Centrelink response

3.81 Agreed. Centrelink accepts the need to continually improve management information systems. It is in early stages of developing a Performance Data Management System (PDMS) to provide secure, validated access and allow collection, storage, dissemination and analysis of performance information that is relevant and useful at all organisational levels. Most of the data will have direct relevance to CSC operations.

Performance management—Call Centre network

3.82 The ANAO has noted that, given the virtual network arrangements of Call Centre (CC) outlets, the need for information to monitor individual CCs on the same basis as ASOs and CSCs is not required, as analysis on the basis of queues across the network is of greater importance.

3.83 The ANAO made the following findings using Centrelink’s own analysis of the performance of its CC network:

- relevant data is available to monitor and manage queues within call centres on a real time basis;
- data useful for monitoring and analysis is available in electronic format and, as most of it comes from a single system, is compatible; and
- analysis is undertaken to forecast workloads for average and peak periods.

3.84 The one area of concern that the ANAO had with the monitoring arrangements for call centres was that of the KPI, average wait time per call, being used to report performance of the network to client departments. Calls cannot get into the queue unless the system estimates that the call wait time will be less than 260 seconds. Furthermore, a proportion of customers abandon calls before they are answered (between 5 to 10 percent). This means that the average call wait time is based on a truncated distribution of call wait times, which may indeed be significantly higher if all calls were allowed to join the queue, and if the wait time for abandoned calls were discounted.

3.85 There is a risk, therefore, that this single KPI is not an accurate indicator of the actual experience of the customer. However, the ANAO found that, internally, the Call Centre Support Office used a much wider range of indicators to analyse and monitor the performance of the network.

Conclusion

3.86 The ANAO concluded that Centrelink has access to sufficient data, and used this data, to undertake adequate business analysis and performance monitoring of its call centre network. However, we found one issue that should be addressed through negotiation between Centrelink and its purchaser departments—namely, that the KPI on average waiting time per call, being used to report performance of the network, may not reflect the actual experience of the customer.

Overall conclusion and business impacts

3.87 Centrelink reports it is meeting its financial goals and maintaining service delivery and considers that its overall management information is adequate. Nevertheless, the ANAO concluded that the management information on which Centrelink bases its outcome reporting is not sufficient to provide a reliable assessment against its business plans at the business unit level. Centrelink's data at the customer service centre level, has deficiencies associated with availability, quality and compatibility.

3.88 In particular, there is limited performance information to allow Centrelink to either readily analyse or monitor its business at the CSC level. In addition, the current methodologies used to allocate resources to the Areas and then onto the CSC network, and the data inputting into these approaches, have shortcomings which reduce the statistical reliability of the process to allocate resources in line with workloads. These include:

- the estimation techniques of unit costs which do not include all components of workloads for service delivery across an Area;
- unit costs that do not reflect variations in costs caused by particular local geographic or demographic characteristics; and
- an absence of guidelines for Area managers for allocating resources within their Area.

3.89 To manage its devolved network of CSCs, Centrelink needs to distribute resources in a way that reflects workloads at the local level and to quantitatively analyse the productivity of individual offices on a standardised basis, that is, to compare like with like. In the ANAO's view, the impact of current weaknesses in Centrelink's management information on its business at the customer service outlet level, has been minimised through the judgement of experienced managers using performance and financial information at the corporate level. There are, however, further substantial planned reductions in revenue that would otherwise be received; potential turn-over of current managers with a subsequent decrease in experience and knowledge; as well as potential significant changes to service delivery being considered in such initiatives as a new Service Delivery Model. These planned and potential changes, along with continuing requirements for maximising cost effectiveness, will increasingly necessitate the underpinning of such judgements with analysis based on reliable management information at the customer service outlet level. This would provide added assurance to stakeholders that Centrelink has the management information to support the planning and monitoring of its 300 service centres.

3.90 The ANAO considers that a fully functional costing model, along with the planned PDMS, has the potential to address many of the issues that the audit identified. Centrelink has been exploring the use of ABC to compare the costs of its service delivery on a standardised basis. In particular, an ABC approach, as described in Chapter 4, would allow:

- the identification and measurement as separate activities, those which consume more resources, for example, interviewing DCALB customers and providing service to remote locations, and take these into account in allocating resources;
- Area overheads to be attributed to cost objects (for example, service types) as they are consumed and used as a basis to determine resource allocations able to efficiently meet service requirements; and
- Centrelink to identify high/low cost CSCs on a standardised basis to assist the identification of efficient and effective practice.

3.91 A separate conclusion was made for the CC network, where, the ANAO considered that Centrelink uses effective resource allocations to maximise its CC services, and has the means to manage well the performance of its CC network.

4. Design and Implementation of Comprehensive Costing System

This chapter examines Centrelink's approach to the design and implementation of its ABC costing system.

Introduction

4.1 A key Government objective in creating Centrelink was to deliver community and employment services more efficiently and effectively. The fact that the Government expects Commonwealth agencies, including Centrelink purchasers, to pay for functions at a contestable price, provides a further discipline on Centrelink to ensure that it maximises the cost effectiveness of its service delivery. In this environment, Centrelink needs to know the full unit cost of delivering each of its services and the drivers of these costs. Such information would allow it to:

- identify productivity improvement opportunities and evaluate the implementation of these improvements;
- benchmark its functions externally to provide assurance to its purchasers on value for money from their funding, and ensure contestable prices;
- more accurately estimate costings resulting from Budget initiatives or changed departmental requirements;
- negotiate prices with its purchasers and provide purchasers with full unit costings as required by service agreements;
- accurately account for expenditures of purchaser funds in line with Government requirements for reporting of outputs and outcomes in portfolio budget statements;
- allocate resources to its business units in proportion to workload costs; and
- internally benchmark financial performance across its customer service network.

4.2 The value of such information for managing an agency has been emphasised by the Chairman of the Joint Committee on Public Accounts and Audit (JCPAA)¹⁶ and by DoFA in its outputs and outcomes reporting framework.¹⁷

4.3 The use of cost data for decision making and performance evaluation in Centrelink is complicated by costs that are related to a number of business units or extend over several services. By far the most difficult costs to account for and to manage are its overhead and indirect costs, which provide Centrelink's capability to perform activities that support a number of services. In Centrelink, these costs amount to about half of its administrative running costs expenditure, which in 1998–99 totalled \$1.7 billion.

4.4 As discussed in Chapter 3, Centrelink currently allocates its overhead and indirect staffing costs to each of its Areas according to the staffing resources spent in delivering that particular service in customer service centres (CSCs). This does not provide Centrelink's managers with an accurate picture of the indirect costs associated in supplying that service or its consumption of resources from supporting activities.

4.5 Alternative cost systems are available to provide managers with more accurate cost information. Each method has its advantages and disadvantages. The choice of method requires a clear understanding of the requirements for, and intended use of, the cost information generated. ABC is one model that is directly applicable to the costing requirements of service and government entities.¹⁸ This is the model that Centrelink chose to implement soon after it was established to both manage its business internally, and to meet the requirements in service agreements for full unit costings.

4.6 ABC differs from other costs management systems in that it does not just track spending but also provides a map of how resources are consumed across an organisation. The main benefit of ABC is that it treats as many costs as possible as a direct cost by tracing costs from resources (for example, people and facilities), to activities, and in turn to specific services using appropriate cost drivers¹⁹. In this way the cost of all the resources consumed to provide a particular service (including resources from other business units) are included in its full cost.

¹⁶ Commonwealth of Australia: *Committee Hansard (Joint Committee on Public Accounts and Audit) Reference: Review of Auditor-General's reports first quarter 1999–2000. Friday, 3 December 1999.* Canberra.

¹⁷ DoFA (1998): *Specifying Outcomes and Outputs.* Canberra.

¹⁸ See ANAO, *Building Better Financial Management Support*, (Better Practice Guide), November 1999.

¹⁹ Many costs cascade through a number of consuming activities before being attributed to services.

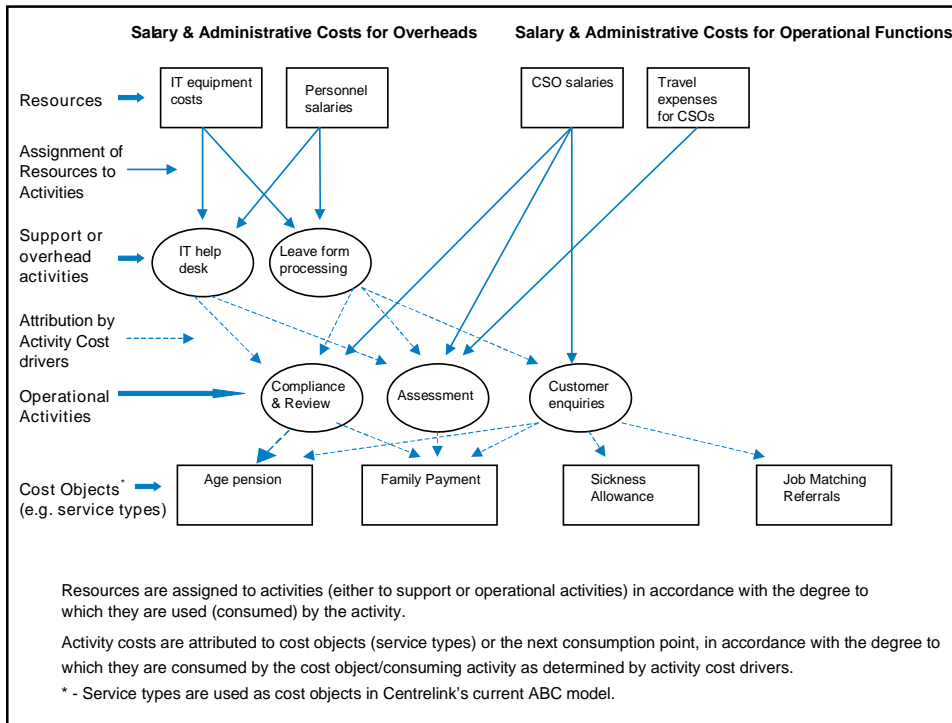
4.7 ABC systems also allow managers to aggregate costs across multiple business units and services. For example, for Centrelink to understand what it costs to process a new claim, it must take account of the cost of resources in many business units—for example, the customer enquiry point of contact, assessment, IT infrastructure and support, and personnel operations. Figure 4.1 following introduces the basic characteristics and the terminology typical of an ABC model. The Centrelink activities and service types are illustrative only and do not reflect the actual situation within Centrelink.

4.8 In April 1998, Centrelink commissioned external consultants to undertake an Activity Based Costing Scoping Study which reported in May that year. As part of this study a sample of managers across Centrelink were interviewed to confirm their interest as stakeholders in the development of an ABC system and to ascertain their reporting and control requirements from such a system. The study identified various options for implementing ABC and proposed a top down approach able to provide initially high level services costing. This proposal was supported by a detailed implementation action plan.

4.9 In mid-1998, Centrelink further commissioned these external consultants to assist in the planning to implement a high to medium level ABC model, within four to six months. The consultant's report, provided to Centrelink in September 1998, drew attention to several critical issues in order for it to meet its timeframe, including:

- the project's requirement for a significant increase in the level of skilled and experienced personnel resources; and
- the need for complete and accurate electronic cost driver data in order for the ABC model to provide reliable output costing data.

Figure 4.1
Illustrative ABC model



4.10 The report provided a listing of the proposed processes, activities and Centrelink service types (cost objects) that should be included in the first version of the system, as well as a detailed implementation plan. It also included time frames, strategies to minimise identified risks, project organisation and communication strategies. The report made recommendations for the implementation approach with the following phases:

- a pilot implementation at essentially a process level across selected parts of the Centrelink Network and National Support Office;
- partial implementation of ABC across all operational elements of the Network and selected parts of the National Support Office at an activity level;
- full implementation of ABC at the activity level across all parts of Centrelink; and
- systems and process integration.

4.11 Against this background, the ANAO examined whether Centrelink was developing and implementing an appropriate ABC system against recognised better practice, including that provided by its expert consultants.²⁰ Centrelink's design and implementation of its model as at September 1999 is analysed under separate headings below. The ANAO recognises that Centrelink has recently undertaken further ABC development work on which the ANAO's expert consultants have provided advice. This is discussed at paragraph 4.56. In addition, Centrelink's current costing approach includes a number of supplementary components as an interim approach to a fully functional ABC system. Of particular significance are the Joint Operations Group (JOG) processes which are discussed at paragraph 4.50.

Design of Centrelink's ABC model

4.12 The ANAO examined the design of Centrelink's ABC model to determine if it:

- had activities that have been identified at a level of detail which reflects the needs of the organisation;
- had a methodology to trace resources to activities, which provides an acceptable degree of accuracy and is cost effective;
- recognised and reflected the disposition and materiality of costs;
- identified and collected cost driver data; and
- reflected the reality of activity output consumption in cost tracing paths.

4.13 The findings against each of these practices are outlined in the following sections.

Identification of activities at a level of detail reflecting Centrelink's needs

4.14 As outlined in Appendix 2 paragraphs 1–3, activities within an ABC model should be defined at a level to reflect the needs of the organisation. In particular, the ABC costings to assist business process re-engineering, an initiative to which Centrelink has given priority through the JOG exercises²¹, require more detailed activity definitions than those required to identify output costs. In addition, at each particular level of detail, activities need to be defined so the each occurrence of the activity uses broadly the same resources.

²⁰ The criteria were developed by ABC consultants, Martin A. Cocker Pty Ltd. A description of the role of these criteria in the assessment of ABC systems is at Appendix 2.

²¹ See paragraph 4.45 for details of JOG exercises.

4.15 The ANAO noted the ABC system, that it reviewed, was not intended initially to be used for re-engineering purposes. The ANAO found that the report that Centrelink's external consultant provided in September 1998 identified a list of 42 recommended processes and activities, categorised into two broad processes: 'Operating' processes and 'Management and Support' processes. Progress against implementing the recommended approach is outlined as follows:

- 'Management and Support' processes. These processes include the NSO. At the time of the audit fieldwork (12 months since the consultant's report), the ANAO found that there had not been any progress in developing the activity dictionary for NSO activities, as recommended by the consultant. This means that Centrelink is not yet able to define these activities to a level which allows significant components of NSO activity costs to be reliably traced; and
- 'Operating' processes. The ANAO found that activities for 'Operating' processes had been defined to a greater level of detail, than those for the NSO. However, Centrelink has not undertaken the analysis to determine if these activities are sufficiently detailed to ensure that each occurrence of the activity uses broadly the same resources.

4.16 Unless these issues are addressed, the outputs from the system will not reflect accurately the costs consumed by each of Centrelink's service types.

The methodology should appropriately trace resources to activities

4.17 Staff assignment of their time occurred through a time allocation survey.²² This survey had considerable complexity in the recording process, as staff were required to assign their time to a matrix of activities by service types. Given this, the ANAO considers that individuals with jobs that cover a greater number of service types and/or activities within those service types, will have more difficulty in accurately allocating their time in comparison with those whose jobs entail fewer service types and/or activities. Such a survey approach produces a high potential for statistical bias in the survey results from misallocation of time. Centrelink's approach contrasts with the basic principles of ABC, whereby staff would only be required to attribute their time to defined activities, with cost drivers used to trace the activity cost to the service type, an approach which acts as a buffer to any allocation inaccuracies by staff. The methodology used by Centrelink does not have this in-built buffer against inaccuracies.

²² An analysis of the staff time allocation survey is at Chapter 3.

The disposition and materiality of costs should be recognised in the model

4.18 ABC principles require significant expenditure by activities to be attributed to the next consumption point or Centrelink's service types using cost drivers. In addition, these principles require support activities to be traced through to operational activities prior to assigning costs to the service types.

4.19 The Centrelink model reviewed by the ANAO, reflects the latest actual expenditure for the financial year ended June 1999. This equates to \$1.67 billion and comprises both operational and support area items of expenditure. The ANAO found that Centrelink had assigned only \$1.06 billion of costs (or 64 per cent of total expenditure) directly to activities and service types based on information obtained from the staff time allocation surveys or other direct attribution methods. This expenditure included the cost of operational activities and some, but not all, operational support activities. Centrelink's model assumes that the balance of expenditure, (36 per cent of total expenditure, comprising the balance of management and operational support activities) are consumed in exactly the same manner as those costs which have been directly attributed. This expenditure (36 per cent of the total) is material and equates to approximately \$0.60 billion per year and, if not correctly traced, has the potential to severely distort the final costs of service types and to impact on the quality of information that Centrelink uses to set prices with its purchasers.

4.20 Not all the costs are traced to operational activities prior to being attributed to final service types. Of the total resource costs of \$1.67 billion, approximately \$0.87 billion (52 per cent) has been traced to operational activities, and a further \$0.80 billion or 48 per cent of total, to management and operational support activities, such as IT development and support. These management and support activities have been traced directly to the final service types and not, as the principles of ABC require, to the consuming operational areas and activities. The operational activity costs are thus understated by this amount—nearly half the total expenditure.

4.21 The ANAO concluded that the service costings have been compromised by Centrelink's approach, with the potential for significant inaccuracies in model results. In particular, the costs of many support activities are not analysed to a level at which discrete cost drivers can be identified and used as a basis to trace costs through to the service types via operational activities. This information is needed for internal management decision making and for advising Government and Centrelink's clients on costs.

4.22 In its response, Centrelink has advised that its most recent exercise (see paragraph 4.56 for an outline of such developments), traces all expenses to defined cost centres and activities and those costs are then attributed to service types. In the ANAO's view, Centrelink's advice does not indicate that it has traced all activities step-wise to service types via relevant consuming activities. While such an approach could possibly be appropriate for an alternative cost attribution methodology, it does not comply with the fundamental principles of an ABC methodology. The subsequent impact on precision of costings, using this most recent approach, should be considered by Centrelink's management to ensure that the outcomes are in line with Centrelink's costing requirements.

Cost driver data should be identified and collected

4.23 Cost driver data is at the heart of ABC. These are the measures used to attribute the cost of an activity to its consumption points or service types. Essentially, these would allow Centrelink to accurately determine the costs of key activities.²³

4.24 The Centrelink costing model lacks cost driver data. Instead costs have been traced from resources to activities and from activities to service types using 'percentage of FTE²⁴ effort at the operational level' as the major driver. As outlined in paragraph 4.17, this approach has weaknesses in tracing resources to service types at the operational level, as it requires staff within a survey to assign their time to matrix of activities by service types with a subsequent high potential for statistical bias. Irrespective of these weakness, cost drivers should be closely related to the activity the cost of which is being traced. The ANAO found that expenditure on management and operational support activities comprising 36 per cent of total expenditure, had been traced directly to service type using this operational level distribution of effort, rather than using cost drivers appropriate to trace the activity to the next consuming activity. Therefore, a significant proportion of total expenditure is being attributed to service types using a measure that is not appropriate to the activities.

²³ In a very simplified, illustrative example, suppose the cost of all customer enquiries in CSCs was \$70 million. A relevant cost driver might be the number and distribution of these enquiries by service type. This would allow the \$70 million to be traced and allocated to the appropriate service type. In particular suppose 10 per cent of all customer enquiries were for age pensions new claims, then \$7 million would be allocated to age pension new claims. In addition, if there were a total of 10 million enquiries per annum, the average unit cost of customer enquiries would be \$7, providing Centrelink with a benchmark.

²⁴ Full Time Equivalent.

Thus, there is a significant risk of cross-allocation of costs between service types.²⁵

Cost tracing paths should reflect the reality of activity output consumption

4.25 In reviewing an Activity Based Costing model, the ANAO expected to see cost and activity tracing mechanisms in place that reflected the actual consumption of these costs and activities. Typically, this would include:

- the isolation of overheads such as property, utility, insurance and depreciation traced to each of the consuming areas based on such drivers as square metres, usage and asset values;
- the analysis of the support functions such as HR, Finance and IT into activities that are supported by the presence of a discrete driver and are traced to the operational areas that consume these support services; and
- the separation of the operational functions into activities that are supported by the presence of a discrete driver to trace these costs to the final service type.

4.26 The ANAO attempted to trace the flow of costs from resources to activities and from activities to intermediate service types and then to final service types, using the latest available model. The ANAO found that expenditures were downloaded from Centrelink's financial records into the Resources module of its specialist ABC software²⁶.

4.27 However, in Centrelink's model all activity costs have been applied directly to service types using 'percentage of FTE effort' as the principal driver. In effect, Centrelink's current ABC modeling approach has the same weaknesses as that of its 1999–2000 Services Costing Model (SCM), an approach that was identified in Chapter 3 as being inadequate to meet the needs of internal managers for costing information for use in resource allocation.

²⁵ As a simplified, illustrative example, suppose Newstart new claims accounted for four per cent of all operational resources, but eight per cent of NSO staff development resources. If the NSO staff development resources are distributed using the distribution over service types of operational resources, the full unit cost of Newstart new claims will be underestimated as only half the resource spent by NSO on staff development for this service type have been attributed to it.

²⁶ The ANAO did not review this step as it was beyond the scope of the audit. We have assumed that the attribution of costs to areas and expenditure classifications agrees with that in the General Ledger.

Conclusion—design of Centrelink’s ABC model

4.28 The ANAO concluded that the design of Centrelink’s current ABC model does not incorporate the key features of an effective ABC costing system. In particular, consistent with ABC principles, it does not:

- identify activities to a sufficient and appropriate level of detail;
- use a sufficiently accurate means of tracing resources to activities;
- identify and use cost driver data; and
- adequately trace activity costs through their consumption points prior to attributing costs to cost objects.

4.29 The ANAO’s assessment of Centrelink’s ABC costing approach current at the time of the audit fieldwork, is that it would not allow Centrelink to accurately determine cost information, required for example to assess output cost for client agencies’ Portfolio Budget Statements, and for price setting. Thus, Centrelink’s ABC model has not as yet achieved the results intended from its introduction.

Implementation of ABC as a project

4.30 The ANAO examined the implementation of Centrelink’s ABC system to determine if it had:

- a clearly articulated cost management charter;
- put into place an effective change management program;
- supported the ABC implementation with an effective project management structure;
- invested in appropriate software resources, that is, specialised proprietary software that has universal application;
- invested in appropriately skilled and experienced resources;
- a cohesive cost management IT strategy;

4.31 The findings against each of these better practices are outlined in the following sections.

The organisation should have a clearly articulated cost management charter

4.32 As outlined at paragraphs 4.8 to 4.10, Centrelink engaged external consultants to identify options for implementing ABC, and subsequently, to assist in the planning of this implementation. The two reports prepared by the external consultants provided Centrelink with a cost management charter and an implementation plan, providing Centrelink management with a specialised advice on how to proceed with the development of an ABC system. In the ANAO’s view, this is consistent with better practice.

The organisation should put into place an effective change management program

4.33 In order to determine if Centrelink had an effective change management program, the audit focused on assessing whether managers at all levels have been involved throughout the ABC project, through, for example, identification of information requirements for the system and how best to collect the data, regular feedback on developments, and progressive system output releases.

4.34 The ANAO found that, at the beginning of the scoping study stage of the project, managers had been surveyed, and identified their requirements from, and interest in, the outputs from an ABC system. The ANAO interviewed a number of its managers, who had taken part in the scoping study survey. The aim of these interviews was to establish whether the cost management information needs of these managers had changed (that is, they no longer had a requirement for ABC and therefore would not be open to the aims of a change management program no matter how effective), the degree of involvement they had had with the ABC implementation and the exposure that they had to the preliminary results achieved to date. All managers advised that their cost information requirements were unchanged, but that they had not been kept informed of the development of ABC in Centrelink. The Centrelink ABC team reaffirmed that, at the time of the audit fieldwork, data derived from the model had not been available to managers and that alternative costing methodologies were being used.

4.35 These findings indicate that the development of ABC is still at an early stage, and had to date not given attention to involving managers in what should be an important development and change project. The ANAO, therefore, concluded that an effective change management program for the implementation of the ABC project had not been developed.

The ABC implementation should be supported by a structured project management approach

4.36 Centrelink was provided by its consultants with the basis for a structured approach for the implementation of ABC. In recognition of the risks to project implementation, such as those resulting from tight time frames for initial information from the ABC system, limited skills and experience of ABC, and the need to demonstrate the viability of the approach to Centrelink managers at all levels, the consultants recommended a staged implementation beginning with a pilot project. However, Centrelink did not undertake the implementation in line with this recommended approach and instead, attempted to introduce ABC across the entire organisation. Centrelink advised the ANAO that this approach was undertaken to meet urgent business needs.

4.37 An implementation approach across the whole organisation is significantly more complex than through a staged approach. The ANAO notes that this is likely to increase the need to undertake such an implementation by a more structured project management approach. The ANAO sought to establish whether the ABC implementation undertaken to date had been supported by:

- *a project plan*—the plan should include a list of priorities and resourced tasks against which the achievement of project milestones can be assessed; and
- *a project steering committee*—the committee’s role should be to review progress, ensure that the project is staffed with adequately trained and experienced personnel, determine policy relating to cost management issues that arise, facilitate the availability of required resources from across the organisation and promote the project to the organisation.

4.38 The ANAO did not find evidence of a ABC project plan nor of the establishment of a project steering committee.

4.39 Centrelink advised the ANAO that, subsequently, it needed to wind back its commitment to the ABC model to undertake work of greater priority to Government. The ANAO considers that a structured approach to project management would have assisted in progressing the implementation irrespective of this priority as the impact of this change on the implementation could have been assessed and considered by a project steering committee, with recommendations to Centrelink’s senior management. Instead, the organisation-wide project went ahead with a contractor being engaged as a project manager, supported by one or, at times, two staff. The latter level of staffing was considered inadequate by Centrelink’s consultants for even a pilot implementation.

4.40 The ANAO concluded that the project was not supported by a structured project management approach. The ANAO recognises that Centrelink had competing priorities for its resources, but as this made it less likely that the ABC project would succeed, it therefore increased the need for such an approach for its effective implementation.

The organisation should invest in appropriate software resources

4.41 Centrelink has purchased the specialised ABC software package widely used throughout the world and is considered to be the benchmark of its type generally by cost management experts. However, Centrelink has only purchased a single-user licence of the software which, therefore, had to be installed on a stand-alone basis with limited reporting and

development facilities. While this system provides an adequate platform for the ABC system in its current stage of development, further implementation of ABC would require this software to be upgraded to support an enhanced multi-user environment²⁷. Furthermore, if such software is also capable of becoming the sole repository of ABC data, efficiencies could result from limiting the using of multiple platforms to provide required ABC results.

4.42 The ANAO noted that the work of Centrelink's modeler was being hindered by problems with the IT environment on which the software resided. The ANAO was advised that this had resulted in considerable inefficiencies in model development. This issue should be addressed by Centrelink to ensure a successful implementation of the software as the foundation for the ABC system on an organisational-wide basis.

The organisation should invest in appropriately skilled and experienced resources

4.43 For an organisation to manage the technical aspects of developing and maintaining an ABC system, it requires sufficient skills in, and understanding of, ABC. Furthermore, as ABC implementation requires in depth knowledge of an organisation's operations, and interpretation of its outputs is central to sound management decision-making, planning should address the development, or acquisition, of internal ABC technical expertise for key positions within an organisation's ABC project team.

4.44 The ANAO sought to establish whether the level, skills and experience of the resources assigned to the project by Centrelink were sufficient to successfully introduce and complete an ABC model, even at the pilot stage, in an organisation as complex and geographically spread as Centrelink.

4.45 Up to the time of the audit fieldwork, Centrelink had chosen to use external modeling resources to build the model and operate the specialised ABC software, rather than recruit or train staff with knowledge and experience of the software. (See also paragraph 4.39 regarding the adequacy of ABC project resourcing.)

4.46 Whether or not supplementary external resources are used, it is important that the appropriate number of Centrelink staff with the relevant skills are available to implement such a system. The ANAO found that technical skills and the resources it allocated to implement the ABC project were inadequate. In particular, the lack of adequate in-

²⁷ That is, software available to a range of users across the organisation on a networked basis.

house skills poses a significant on-going risk to the development of a comprehensive costing system. The ANAO considers that there is a need for Centrelink to plan for the acquisition of the necessary technical skills and ensure an understanding of its requirements at the management level so that there is sufficient internal capability, as necessary, to develop and maintain a comprehensive costing system.

The organisation should have a cohesive cost management IT strategy

4.47 In order to be at its most effective and efficient, ABC requires information to be supplied from existing financial systems regarding actual levels of expenditure, as well as cost driver and output volume measures. The output from the model should also be exported into reporting data bases, performance measurement systems and Centrelink's Balanced Scorecard. The ANAO sought to establish whether there were links between the potential inputs into, and outputs from, its ABC model, by identifying and examining Centrelink's various cost management activities, including:

- Services Costing Models (SCMs) discussed in Chapter 3;
- Performance Data Management System (PDMS), described in paragraph 3.76 and 4.54;
- Portfolio Budget Statement (PBS) Outputs, described in paragraph 4.51;
- Joint Operations Group (JOG) Costing Exercises, described in paragraph 4.50;
- Regional Funding Model (RFM), which is used as the basis for the current resourcing agreement between DFACS and DoFA. Its limitations have been previously reported by the ANAO²⁸; and
- Running Costs Estimation for New Policy Proposals, based on RFM and other formulas for costing components, not linked with the current ABC model.

4.48 The ANAO found that there was not a cost management IT strategic plan, nor does Centrelink have any related framework towards which it is working. In particular, Centrelink's various cost management activities do not have its ABC system as a key component. That is, links have not been established for taking inputs into, or providing outputs from, its ABC model. Instead, other activities duplicate and provide

²⁸ *Op cit.* ANAO (1995) pp. 12–13.

different, and sometimes conflicting, results from the variety of software and costing solutions. The ANAO considers that a suitable cost management IT strategy would enhance efficiency and effectiveness of Centrelink's effort in managing its costs and in producing required cost information.

Conclusion—implementation of ABC

4.49 The ANAO found that Centrelink had been provided with sound, specialist advice on how to proceed with the development of its ABC system. As well, it invested in an appropriate specialised ABC software package on which to build its system. However, the ANAO concluded that the effectiveness of the project implementation has been reduced, as:

- Centrelink had not established an effective change management program for implementing a project of the importance of the ABC system;
- the ABC project was not supported by a structured project management approach;
- the skills and level of resources needed to produce an effective solution in the time-frame required were underestimated by Centrelink and had not been provided; and
- Centrelink did not have an effective cost management IT strategy to link directly the inputs and outputs from its ABC model with its other cost management activities.

Recent and planned costing developments

Supplementary costing plans and developments

Joint Operations Groups (JOG) costing exercises

4.50 JOGs are working groups between Centrelink and its purchasers. The key costing activity undertaken to date has been by the DEWRSB JOG. This project mapped and costed detailed operational processes, using this as a basis for re-engineering work processes and for agreeing to the costs of delivering DEWRSB services. Cost drivers and detailed workload measurements have been used in this exercise to determine direct service delivery costs. However, overhead costs were not separately traced, but rather a proportion of Centrelink's overall overhead costs was attributed to DEWRSB services. Centrelink is planning further joint costing exercises with DFACS and DETYA this financial year.

Portfolio Budget Statement (PBS) outputs

4.51 To determine the output costs by service type required for DFACS's PBS, Centrelink applied the distribution of time spent on service types in its CSCs adjusted for current customer numbers (as used in its SCM) to the funding provided by DFACS. Centrelink has made the following assumptions that are untested:

- that funding provided by DFACS equates to the expenditures by Centrelink on service delivery for DFACS; and
- that the distribution of cost consumption at the CSC outlets level is relevant to all costs consumed by Centrelink on DFACS's service delivery.

4.52 The ANAO considers that at the time of the audit fieldwork, Centrelink could not provide an accurate assessment of costs for inputs into DFACS's PBS.

4.53 In response, Centrelink has advised that the results for DFACS's PBS across program lines from its approach were compared across years and between methodologies. In addition, Centrelink has emphasised that considerable dialogue occurred between itself and DFACS as part of the interpretation of the results. Notwithstanding these processes, the ANAO does not consider that Centrelink has reliable cost information on its outputs, irrespective of the accuracy of any estimation of the distribution of its resource consumption. Therefore, in the ANAO's view, Centrelink does not have sufficiently accurate information to provide a high level of assurance to its clients, that the revenues it receives from those clients matches the expenditure on services delivered on their behalf. A costing approach with the functionality of an ABC system, would provide Centrelink with this capacity.

Performance Data Management System (PDMS)

4.54 The ANAO found that Centrelink is considering that PDMS will capture unit cost data. The proposed methodology would draw data from Infolink on a monthly basis, as input to an algorithm within PDMS that would be down loaded from the ABC software. Such an approach would give PDMS some calculation capacity of the current ABC specialty software, but not the full functionality of an ABC system. The ANAO considers that this approach will provide an inferior costing approach to that of an ABC system, and that a more efficient means of achieving the same result would be to download the results from its ABC system to PDMS for use in business analysis.

Conclusion—supplementary costing plans and developments

4.55 ANAO concluded that the supplementary costing approaches being proposed or used by Centrelink, are not in themselves adequate substitutes for more fully developing its ABC system, as they do not provide the accuracy and functionality required for Centrelink to plan and monitor productivity improvements and to account for its expenditures on an output basis. The JOG exercises, however, could form a useful component of a fully functional ABC model.

Recent and planned developments in ABC

4.56 During the course of the audit fieldwork, Centrelink instituted a number of initiatives to substantially upgrade the organisation's ability to implement an Activity Based Costing system. The direction of these developments suggested to the ANAO that Centrelink was improving its capacity to address the issues of ABC model design and project management identified in the audit. Developments included:

- the appointment of external consultants to reassess the strategic direction of the project and provide support for the ongoing development of the system;
- a program of recruiting staff for the ABC implementation project which is renamed the Cost Optimisation Project, which has both a Steering Committee and a project plan for implementation over the next three years;
- the conduct of workshops to inform operational managers about the principles of ABC and the impact from the implementation and the uses of ABC information; and
- planning by Centrelink to minimise the complexity of collecting staff time data.

4.57 In addition, Centrelink has advised that it is now able to reliably trace NSO activities.

Conclusion—implementation of Centrelink’s ABC model

4.58 In mid-1998, Centrelink, with the assistance of external expertise, had developed a firm basis on which to proceed with the development of an ABC system. It had also purchased recognised industry-benchmark software on which to develop their ABC system. However, the ABC system in place at the time of the audit (which was 12 months into the implementation) did not have the key features of an ABC costing system, and thus, could not give Centrelink the capacity to either accurately assess costing information for Government or for internal management with any level of certainty. The ANAO considers that the limited progress in developing an effective ABC system, has resulted from weaknesses in the implementation processes, mainly associated with the absence of a structured project management approach and the lack of resources, particularly skilled staff to progress the implementation. The ANAO has noted developments in Centrelink during the course of the audit which have the potential to address these weaknesses.

4.59 Centrelink does not have any other costing approaches that provide the outputs and functionality required by Centrelink from a costing system.

Recommendation No.3

4.60 In order to provide the necessary reliability of Centrelink’s costing information as a basis for planning productivity improvements and accounting for its expenditures of purchaser funds, the ANAO recommends that Centrelink implement and maintain a comprehensive costing system with the functionality of an ABC approach. Such a system should:

- be supported by a structured project management approach that includes a formal project plan and senior management project steering committee;
- reflect the fundamental principles of a proven approach; and
- be based on appropriately accurate and relevant input data.

4.61 The ANAO is of the view that implementation initially through a pilot based, for example, on one Area, would facilitate the introduction of such a costing system.

Centrelink response

4.62 Agreed. Centrelink intends to build on the improvements already made in costing information, with continued use of professional advice.

A handwritten signature in black ink, appearing to read 'P. J. Barrett', is positioned above the typed name.

Canberra ACT
11 May 2000

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Details of Centrelink's Strategic & Financial Framework

Figure A1.1

Whole of Centrelink planning

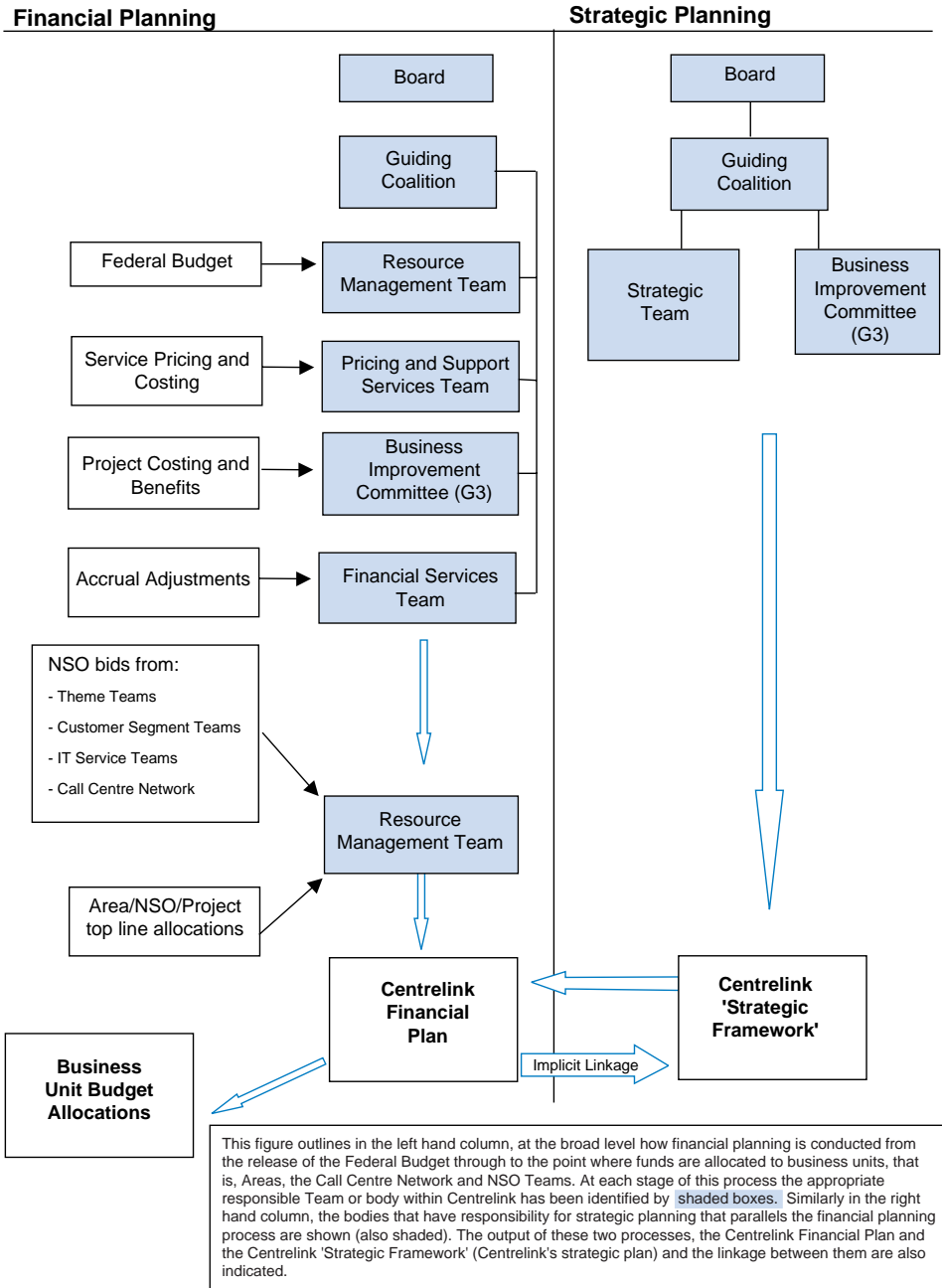
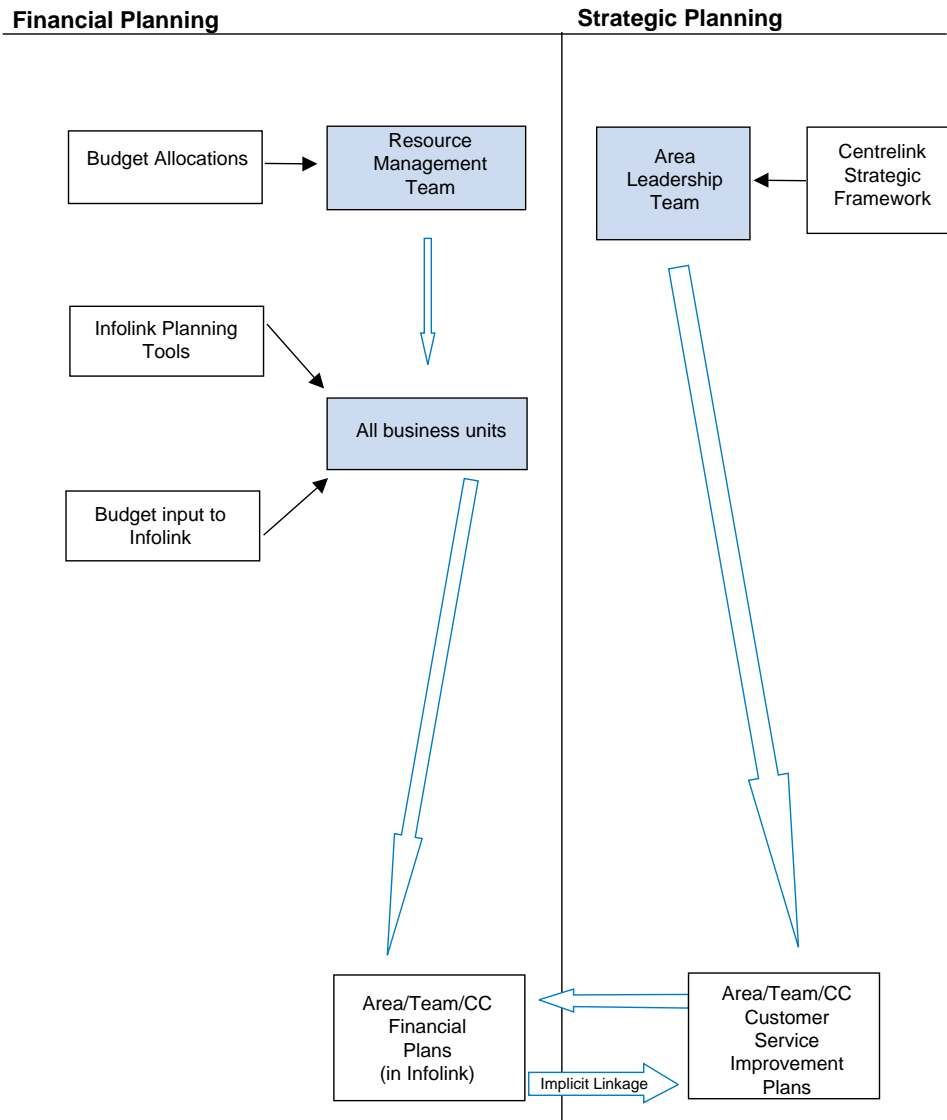


Figure A1.2
Business Unit planning



This figure is similarly structured to that of A1.1 but at the business unit level. It can be seen that the linkages between the strategic and financial plans at the business unit level are similar to those at the national level. The business units produce their own financial plans and strategic plans, the latter known as Customer Service Improvement Plans (CSIPs).

Appendix 2

Explanation of ABC Audit Criteria Design of the ABC system

Activities have been identified at an appropriate level of detail

1. The identification at an appropriate level of detail of the activities undertaken is critical to ensuring that the cost management requirements of the organisation are met. Two issues are initially present in determining the appropriate level of detail. If the needs of the organisation are to calculate more accurate product or service costs then the degree of detail required is not as great when the information is to be used as a platform for business process re-engineering. Process reengineering requires details of not only activities but probably tasks as well. This degree of analysis will support process mapping or work-flow recording and is required so that redundancy and inefficiency can be eliminated.
2. Costing of products and services requires a level of detail so that activities have been decomposed to a level at which only one cost driver can be readily identified. For example the identification of IT resources as one generic activity 'Providing IT Services' contains within it a multitude of activities that each have a unique cost driver. Choosing to distribute these costs on the basis of the number of IT devices, or the number of users will probably introduce an unacceptable degree of distortion in the cost tracing methodology. The analysis into activities within the IT function will probably identify a number of activities each with separate cost drivers, the application of which will substantially improve the accuracy of the cost tracing methodology.
3. Activities should also be defined at a level so that variations in the level of effort or complexity are eliminated within a particular activity definition. Choosing as an activity say 'Reviewing Benefit Applications' is not appropriate if within this activity there is a great variation in the time, skills or other costs required to complete each application type. This activity probably should be analysed into a few groups that are more representative of the resources required for their completion.

The methodology used to trace resources to activities is appropriate

4. Resources of each organisational unit have to be traced to the activities undertaken by that unit. The largest resource is often the employment costs within the unit. Time allocations are normally based on percentage allocations of individuals' or group time to each of the identified activities. This can be accomplished through workshops, surveys, sampling techniques or time recording systems. The technique employed should focus on the disbursement of time on a percentage basis, recognising any seasonal factors that may be present. The degree of accuracy required is one of reasonableness or one which is at a level of accuracy at which staff are competent to make a judgement. Absolute accuracy in time assessment is not essential to the accuracy of the final cost object as the subsequent tracing of costs to the various nodes within the model based on the application of specific costs drivers acts as a buffer, not as an amplifier, to this initial time allocation process.

The disposition and materiality of costs has been recognised

5. Organisational units can be described as operational (or direct) or as service (or indirect). The first group is those units that have a direct relationship in the delivery of the goods and service. The second group is essentially an internal service provider to the operational groups. Certain of the operational groups may have a one on one relationship with a final cost object, in which case such a reality must be reflected in the model. Attention in the analysis of data and the structure of the model must be directed to those costs that are material to the final result. There is little to be gained in enhancing the level of cost object accuracy by undertaking extensive activity analysis in areas of low cost that are far removed from impacting directly on a specific cost object.

Cost driver data is identified and collected

6. The presence and application of cost driver data to provide a platform for the tracing of costs is one of the most important factors that distinguishes the activity based costing approach from conventional costing approaches. Cost drivers are the factors that enable the outputs of each activity to be traced to the consumer of the activity's output. As an example, the activity, 'Processing Accounts Payable Invoices', is probably driven by the number of accounts payable invoices received. This enables a unit cost of processing an accounts payable invoice to be calculated which, in itself, is a valuable piece of information to support process improvement and benchmarking. In addition to the absolute number, it is also necessary to know the number of invoices generated by each of the departments that consume this service. It is on this split

that the cost of the activity will be traced to each of the consuming departments.

7. Cost drivers must be related as closely as possible to the activity. In some cases the cost driver data is not immediately available in which case a surrogate can be used. In addition, the driver must be at the same level as the activity. Activities sustain at the unit, batch, process, product, customer or facility level. The chosen driver of the activity must also reflect this hierarchy.

Cost tracing paths reflect the reality of activity output consumption

8. One of the obvious benefits of ABC is to provide a platform for the calculation of more accurate product and service costs. A primary focus of many ABC users is to achieve this purpose. This intent can often lead the model design and structure to be directed to the sole task of driving costs in a one step process from resources via activities to the cost object. This approach is only suitable for those activities performed in operational or direct organisational unit. However, when considering the support or service units, this approach is entirely inappropriate. The activities that these units perform and the outputs produced are not, directly, for the benefit of the final cost object. They are for the benefit of, and are consumed by, the operational units and the activities that they undertake. The costs of support activities should therefore be taken to the consuming operational units and their activities. The absence of this approach can lead to cost distortions through arbitrary allocations.

Implementation of ABC as a project

Centrelink has a clearly articulated cost management charter

9. Activity Based Costing is the cornerstone of a philosophy known as Activity Based Management (ABM) or Total Cost Management. ABM also includes Performance Measurement and Process Improvement. In addition it has close affinity with the Balanced Scorecard and Total Quality Management. This wealth of information and reporting opportunities can present organisations with both opportunities and threats. The danger, especially in the early stages of implementation, is that organisations are too ambitious in terms of the deliverables, their expectations are unrealistic and consequently the project is trying to address too many issues at once. A clearly articulated project plan that encompasses a limited number of deliverables has a much higher chance of achieving a successful and sustainable future.

Centrelink has put into place an effective change management program

10. Activity Based Costing is dependent upon the availability of much operational data. It is essentially an operational model of the organisation that is expressed in monetary terms. The information available is directed to the costing of organisational activities, ascribing attributes to activities, identifying the drivers of costs, providing performance measures for critical activities and non value added activities, providing opportunities for benchmarking and process improvement as well as the costing and profitability analysis of products and services. Success in the collection of data and the use of the information rich output that it provides requires the understanding, cooperation and acceptance of the technique by all levels of management. An effective change management process and the visible support and commitment of senior management is critical to long term success. We would expect to see such a program in operation.

The ABC implementation has been supported by a structured project management approach

11. ABC requires the cooperation and involvement of representatives from a diversity of functions. These would typically include Finance, Operations and IT. The successful completion of the implementation program is dependent upon operational staff time and commitment to participate in staff surveys and to coordinate the collection of cost data. To be successful, the project must have, and be seen to have, the support and commitment of senior management. During the course of the implementation the Project Manager will require the support, direction and facilitation of the senior management team. We would expect to see the existence of a formal Project Steering Committee and minutes relating to the implementation issues that have been addressed and resolved.

Centrelink has invested in appropriate software resources

12. The availability of specialised software is a desirable feature of an implementation program. Specialised proprietary software is available that has universal application. Internal resources spent in developing in house solutions are invariably a distraction from achieving the major goals of the project and spreadsheet solutions are not capable of supporting the complexity of modelling that most organisations require. The investment in such software is also usually a demonstration of management's degree of commitment to such a project.

Centrelink has invested in appropriately skilled and experienced resources

13. An Activity Based Costing implementation is a full time role for the duration of the implementation timetable. It requires considerable investment from a dedicated person or team of people. The size and composition of this team is obviously implementation site specific, however, the skills required include a knowledge of the operational aspects of the business, knowledge of existing data systems, experience and formal training in ABC techniques, communication skills, software operating skills, cost accounting skills and project management skills.

Centrelink has a cohesive cost management IT strategy

14. The availability of proprietary software provides opportunities for the integration of the ABC model as an analytical tool with other operational systems. This integration can provide opportunities for automatically capturing periodic financial and operational data and providing more open access to managers of activity based reports. These opportunities are presenting themselves at an increasing rate especially in those organisations that have installed Enterprise Resource Planning software systems. In a complex IT environment, it is essential that questions of integration and how each software solution should contribute to the transaction processing and management reporting are addressed, agreed and documented as early as possible in the implementation timetable.

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