



Managing the Cost of Social Security Administration: the Australian Experience

**Paper for ASSA Pre Board Seminar, Bangkok, Thailand,
11-14 March 2004**

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Introduction: The Changing Policy Framework

In considering the issue of managing the costs of social security administration, we need to begin with an overview of the changing policy environment that sets the agenda for social security administration. For policy to be effective it must be informed by the realities, opportunities and risks of policy implementation and service delivery; and policy implementation itself must be designed and managed well.

Managing cost is a key element in policy implementation. This paper identifies three key themes in the current policy/service delivery agenda - early intervention, participation and the integration of services - and considers their implications for the cost of administration. A dual perspective on cost emerges:

- a need for targetted up front investment which offers the potential for major long term reductions in costs, but also
- a need to reduce baseline costs and maximise the effectiveness of interventions in order to manage up front costs.

Early Intervention

One major focus of policy in Australia is shifting towards a lifecycle approach in which investments are made to help drive outcomes in the longer term. This is based on the recognition that problems affecting individuals in a given phase of their life course often influence their opportunities at a later stage, as well as those of their children.

For example, we know that parents with a disabled child face a high risk of marriage breakdown, leaving a sole parent to bring up the disabled child; we know that sole parents in general are at high risk of long term reliance on income support payments; and we know that the children of jobless families are themselves at risk in terms of a range of social indicators including reliance on income support. The investments in programs that support families with disabled children come at a cost, but also offer the prospect of major long-term savings.

There are many other examples of the ways in which early intervention contributes to long term cost containment. Research in a range of disciplines is increasingly showing that the early years of a child's life build the foundations that contribute to their future development, health, and wellbeing. Safe nurturing relationships, an active learning environment, good nutrition, and opportunities to play with other children all contribute in inter-related ways to their early physical and psychological development and their emerging competence. A difficult beginning, in contrast, can have lasting impacts on their chance of reaching their full potential over the course of their life.

As a result, what happens in early childhood can influence the requirements of individuals and families for a wide range of government services over their lifetime including welfare, health, education and the criminal justice system.

Participation

In addition to early intervention, a second major policy focus in recent years has been on maximising labour force participation, and reducing reliance on income support, of people of working age. This approach is in part directed to directly reducing the cost of income support but it also has broader relevance which illustrates the interdependence of social and economic policy.

Australia needs to maximise labour force participation because of the structural ageing of our population. The proportion of people aged over 65 years in Australia is expected to grow from 12% of the population in 1999 to around 25% of the population by 2051. On the other hand, the proportion of the population currently considered to be of labour force age is expected to fall from 67% in 1999 to around 59% by 2051.

Thus, maximising economic participation by people of labour force age is central to both economic and social policy to maintain the labour supply necessary to support the continued national prosperity, which, in turn, will allow Australia to continue to fund its wide-ranging and relatively generous social support programs.

In a recent speech, Ken Henry, the Secretary of the Australian Federal Treasury noted that:

“For 30 of the last 40 years the principal macroeconomic challenge concerned the unemployment rate. For all of the next 40 our principal economic challenge will be the participation rate... Demography is a big policy story... and the heroes of the story, as it unfolds over the next 40 years, will be the policy responses that address workforce participation issues” (Henry 2003: 9, 11).

The OECD perspective, which brings together the early intervention and economic participation policy agendas, is that:

“The role of public policy... must be to design interventions so as to maximise both the number of people who have opportunities for active social roles, and the durations of their lives over which they can experience such activity” (OECD 1988: 18).

The participation policy agenda focusses on the 2.8 million Australians of working age who are jobless or who are on income support. It emphasises the sustained response required across a range of government policy areas including economic, workplace relations, family, drugs, and youth homelessness.

An integrated response is required in which focuses not only on changes to the income support and service delivery policies of government but also to the attitudes and behaviour of individuals, communities and business.

In relation to social security administration, a key theme is the need to "individualise" or "customise" the service delivery response to individuals - that is, to move from a standard "one size fits all" approach to one in which people receive the help that considers the specific barriers a person has to increasing their participation and then tailoring assistance to meet their individual needs.

In response to these questions, people will identify their health issues, housing requirements, their need for additional education or skills, their desire for work experience, or their limited social networks. They may, for example, require literacy

and numeracy training (funded by the Commonwealth), drug counselling (funded by State Governments) or a volunteering opportunity in the community sector.

Integration of Services

The participation and integration agendas lead to a common requirement for better linkage of programs and services. In the participation context, new requirements mean that assistance for income support recipients is not only about eligibility for payments, but also the assistance that is required to enable them to increase their levels of participation. Consequently, the need to access a range of different services simultaneously or sequentially, and the impact of barriers to doing so arising from lack of integration, has become more acute.

A similar analysis applies to the early intervention agenda. Effective intervention to address issues such as early childhood needs means bringing together a wide range of programs and services. In developing an early childhood agenda, FaCS convened a Commonwealth Taskforce on Child Development, Health and Wellbeing for this purpose, with representation from ten departments and agencies and there has also been interaction with State governments who have been very active in this area. The work of the Taskforce involved blending many perspectives and interests to define a working framework built around shared objectives, and to agree the key action areas of early child and maternal health, early learning and care, and supporting child-friendly communities.

There are many different ways of integrating services. They include simple coordination exercises between agencies based on improving links between existing programmes, substantial re-engineering of programmes to improve links, co-location of services in one-stop shops, and re-engineering of all or part of the social support system to cater for the needs of disadvantaged places or specific customer groups. Integration can also happen within one sector (Australian government, State/Territory Government, the NGO sector) or across sectors.

This paper focusses on the integration of services through Centrelink as the major Australian Government agency delivering FaCS' income support programs and

services funded through other portfolios. Centrelink employs 21,000 staff through Customer Service Centres, Call Centres and Agents

In its linking role, Centrelink provides payment of income support and the referral of individuals to labour market and other programs as the "gateway" to the social support system.

Implications for the cost of social security administration

Prima facie, the key issues identified thus far in this paper are ones which call for an increase in the up front costs of social security administration. New forms of early intervention, individualisation of service delivery, recognition of diversity in the needs of communities are all potentially high cost agendas.

For example, dealing with people's individual needs rather than providing them with a standard service means investment in staff by service delivery agencies. One of the major measures in the government's initial package of welfare reform measures was the creation of over 700 new "Personal Adviser" positions in Centrelink to provide individual attention to priority groups of jobless people.

Integration of services also involves significant costs - in the case of Centrelink, the cost of creating a new agency. The Australian Government has shown itself to be willing to make this kind of up front investment, but in return, has required agencies to manage costs in two key areas:

- controlling the baseline costs of social security administration; and
- increasing the cost-effectiveness of key interventions aimed at helping individuals to address the barriers that prevent them from finding work.

Controlling Baseline Costs

Controlling Centrelink's costs is a joint responsibility of FaCS and other agencies on behalf of which Centrelink deliver services, and of Centrelink itself as an independent agency concerned to maximise its competitiveness as a provider of services under agreements with other agencies.

The FaCS/Centrelink relationship blends elements of purchaser/provider responsibilities with elements of partnership and alliance. The relationship is structured through an agreement known as "Alliance 2004" which brings together six key projects addressing different elements of the relationship. Key elements in relation to costs are the Business Partnership Agreement, which is an agreement between the two agencies for all joint business interactions, and the Centrelink Funding Model, which provides a pricing structure for the services performed by Centrelink, which are specified in the Business Partnership Agreement. These are complemented by other projects addressing agreed outputs and outcomes, business assurance, information and evidence and relationship management.

In terms of action by Centrelink to control its own costs, in 2002 the Boston Consulting Group was engaged to undertake an independent review of its cost efficiency to assure itself that its performance is commensurate with best practice.

The study concentrated on three key areas:

- Cost Efficiency Over Time
- Cost Efficiency Today
- Cost Efficiency in the Future

Cost Efficiency Over Time

The review found that Centrelink had delivered efficiency gains of around 21% since its establishment, an improvement that compares favourably with gains achieved by leading Australian private sector network businesses over the same period. In addition the review concluded that it was an impressive result given rising levels of customer and staff satisfaction, and improvements in meeting client agency key performance indicators.