

Managing the Cost of Social Security Administration: the Australian Experience

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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.

Exhibit 1: Centrelink Efficiency Gains, 1997/98-2001/02 (Index)

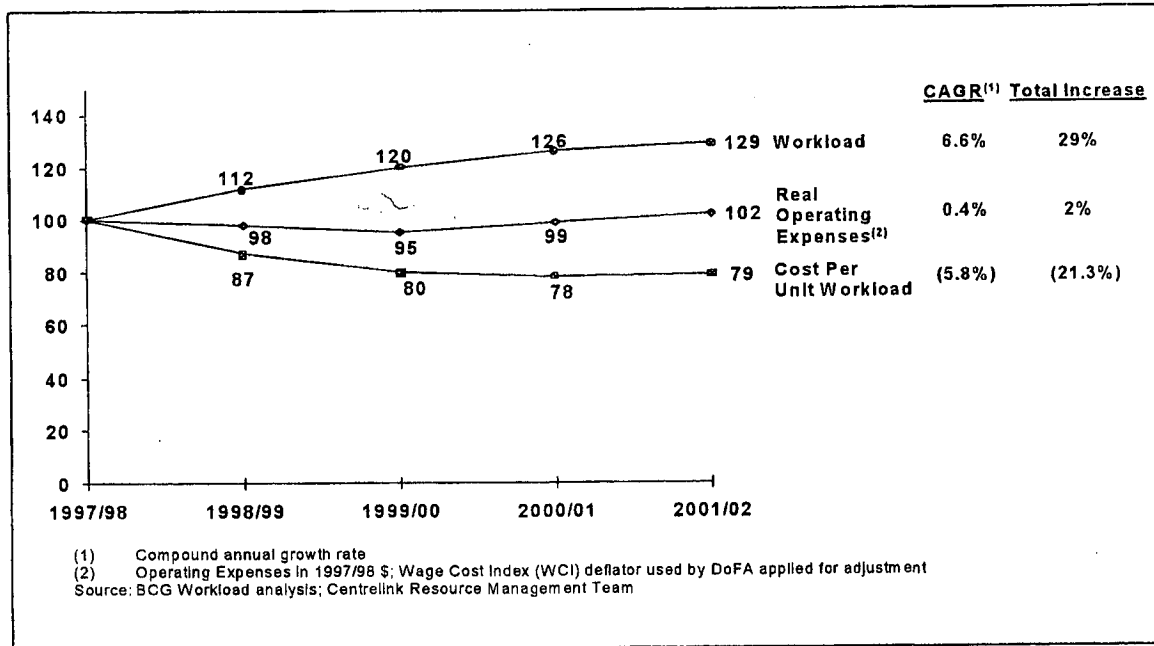


Exhibit 2: Overall Customer Satisfaction: 83%

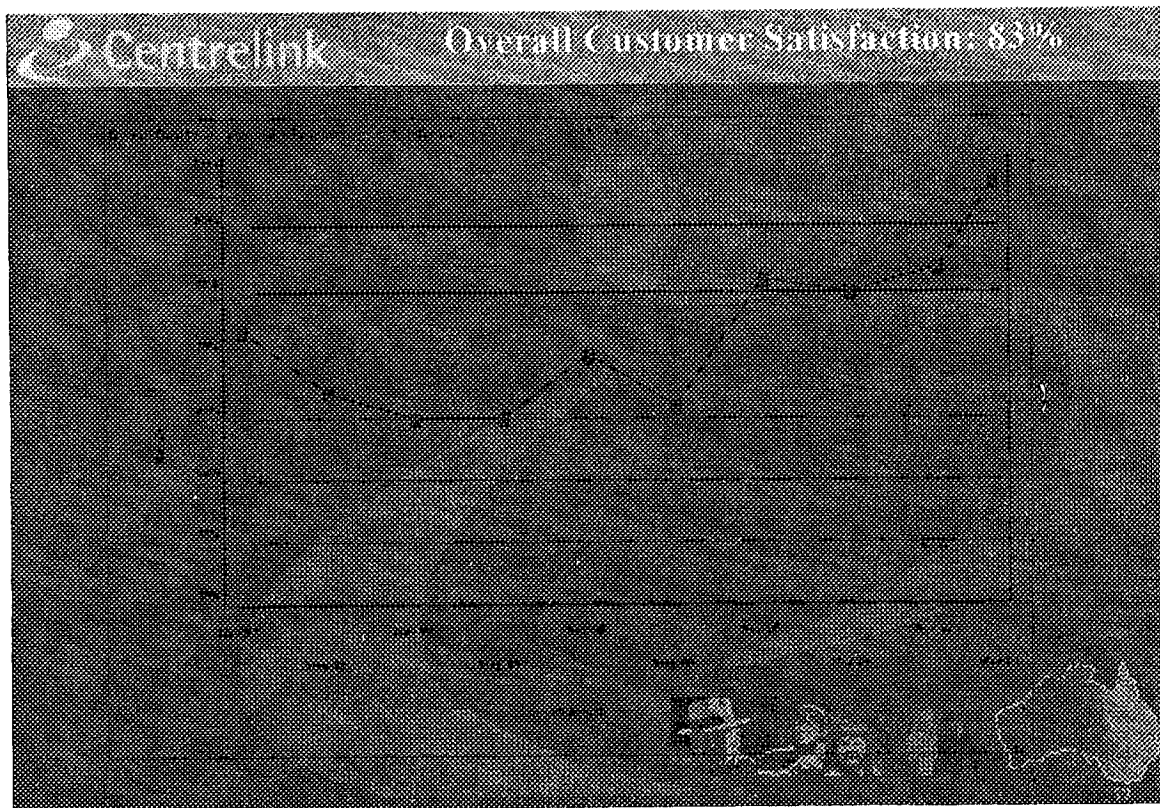
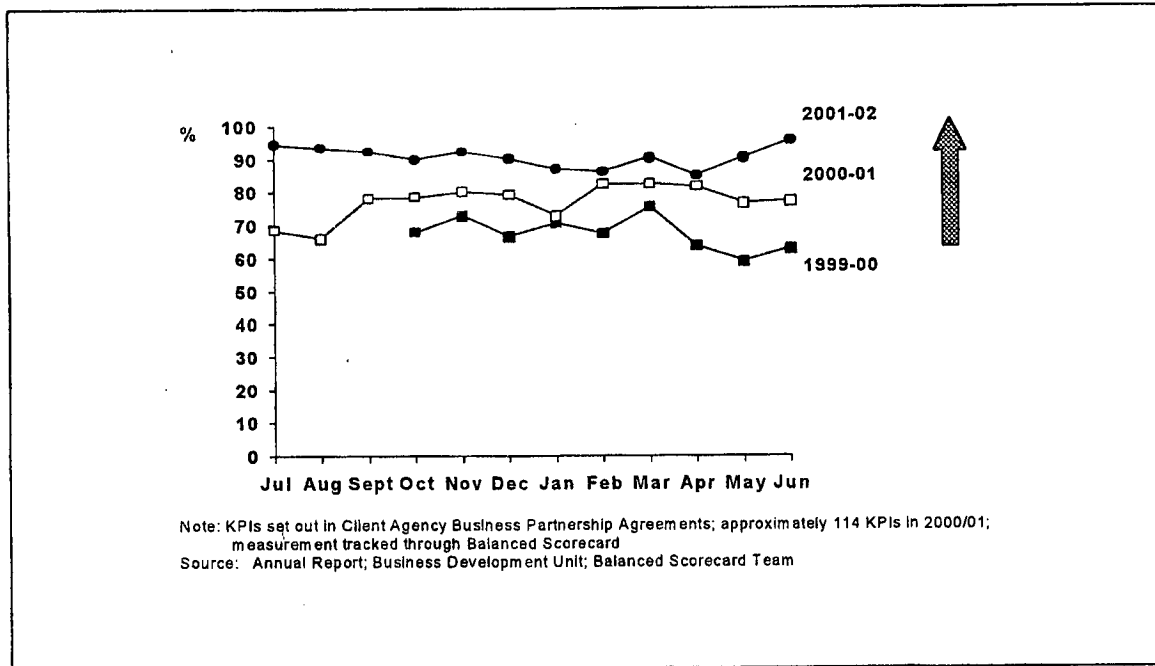


Exhibit 3: Overall Client Agency KPIs Met Over Time (%)



Cost Efficiency Today

Overall, the review found that Centrelink's cost efficiency appeared to be comparable to that of other network businesses. It found that Centrelink's initial claims processing costs are in line with those of financial services organisations, but its claims maintenance costs are higher. These higher maintenance costs are largely driven by Centrelink's significantly higher volume of interactions with its clients that are required by the legislation under which social security payments are delivered.

The review also found that after allowing for Centrelink's relatively high level of call complexity, call centre cost per call handling hour appeared to be broadly in line with good practice. In addition Centrelink's I&T spend is lower than that of comparable organisations and management and support costs, and property costs (space utilisation and rental costs) were reasonable relative to benchmarks.

Cost Efficiency in the Future

The review found that future cost reduction efforts should be organised around four themes, namely:

- Actively champion the identification and achievement of internal best practices across the network;
- Institute a major campaign to explore the potential to reduce the frequency and cost of customer interactions required under legislation;
- Streamline management and support resources; and
- Consolidate non-customer-facing activities out of its front line customer service centres to reap the benefits of scale and specialisation.

To support these cost reduction efforts and position the organisation for continuing performance improvement, Centrelink requires:

- Much better cost-related performance management information across the network;
- An effective, consistent process to determine what will be standardised across the network and what will be determined locally;
- Tighter linkage between improvement projects and effective implementation;
- More effective interactions with client agencies to manage combined operational and program costs, in order to realise the best overall outcomes; and
- Better access to funding for investments with multi-year payback periods.

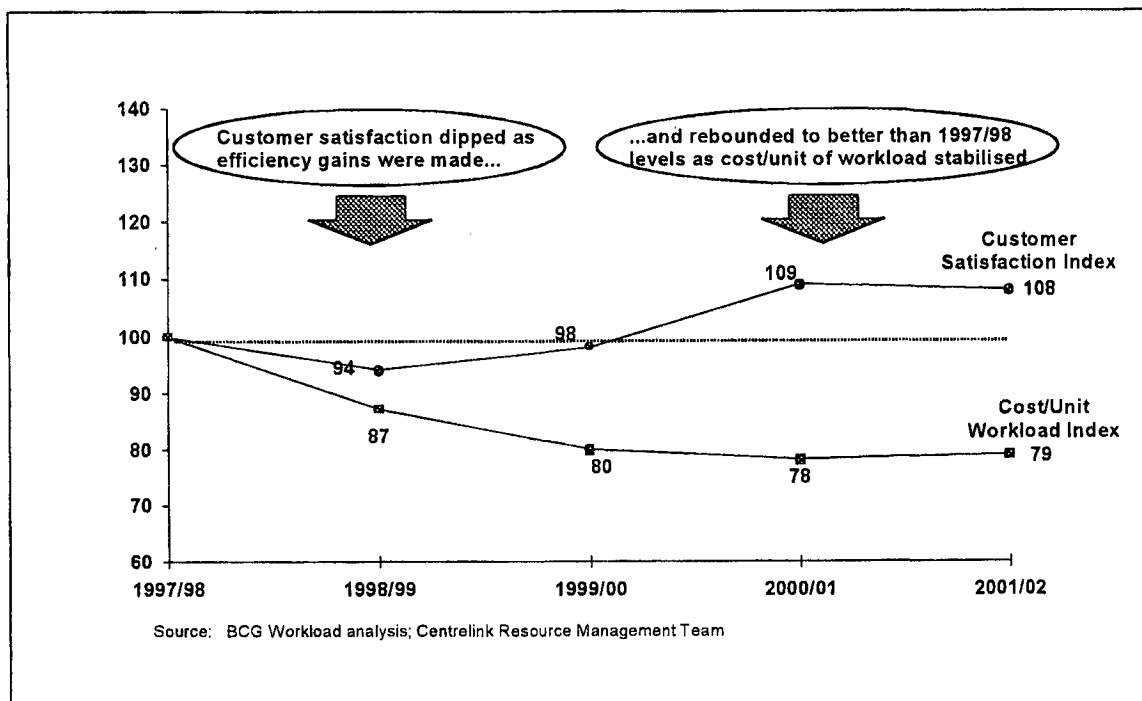
Main Drivers of Improved Cost Efficiency Performance

In examining the main drivers of improved cost efficiency the Boston Consulting Group concluded that on the basis of their global financial services experience that the merger of the two former service delivery networks would lead to annual cost savings in the order of 4.7%. Other drivers included service delivery efficiencies achieved through overlapping customer bases and business process reengineering. However the two main drivers of non-merger related efficiency gains related to staff related reductions (around 5,000 staff) and technology-driven productivity gains improvements.

Most of the efficiency gains were attained over the two years 1997/98 to 1999/00. Exhibit 4 shows efficiency improved by 20% over that period and only 1% between 1999/00 and 2001/02 with a corresponding drop in customer satisfaction during the

period of greatest efficiency gains but considerable improvements thereafter as the network stabilized.

Exhibit 4: Customer Satisfaction Versus Cost Per Unit Workload, 1997/98-2001/02 (Index)



Key Findings from the Centrelink Experience

Centrelink has improved its cost efficiency against a background of major organizational change. Almost all stakeholders acknowledge Centrelink's achievements in merging two service delivery networks, creating a new customer focused organization, and achieving "huge cultural change". Essential elements for this cultural change to date, and for taking it further to meet the new challenges of welfare reform, include:

- Establishing an agency with the exclusive responsibility for service delivery in social security administration,
 - Enabling the recruitment of staff focused on good customer service, and
 - Ensuring that the focus was on improving service delivery standards;
- Developing a customer service focus across the organization utilising customer research, surveys and focus groups to drive improvements. The data enabled the

development of enhanced service delivery options like One Main Contact, the Life Events Model and service recovery strategies;

- Empowering staff across the organization to innovate and look for opportunities to integrate service delivery to improve efficiency and effectiveness. This led to the establishment of the Business Improvement Committee which has the responsibility of coordinating the internal resourcing of productivity improvement projects like:
 - The Customer Account which is designed to provide both staff and customers with a single view of all their payments and requirements,
 - Multi-Purpose Contact which ensures that all outstanding activities across all payments and services are attended to in one contact,
 - Centrepay which enables customers to redirect some of their payments directly to service providers for basic necessities like rent;
 - Customer Confirmation which enables service providers to directly check the eligibility status of customers for concessional rebates, and
 - An extensive range of other productivity improvements and initiatives;
- Developing an integrated business process reengineering capability through the establishment of the Service Integration Shop. This group has the responsibility for implementing major organisational transformation projects that aim to streamline work processes and procedures through reducing duplication and ensuring standardisation. Examples include;
 - Shortened and simplified claim processes,
 - Consolidating multiple assessment and referral processes into single standard tools,
 - Service Profiling to focus effort on those most at risk of being paid inappropriately, and
 - Creating an integrated experience for customers;
- Exploiting the value of information and technology to standardise and codify work practices and processes, as well as enabling a consistent and whole of customer approach to the integration of policies and rules
 - Common platform integrating over 600,000 rules

- Extensive electronic and information networks underpinning four channels – on site, on call, on paper and online
 - The backbone to the self-service capability enabling consistent service within and across channels;
- Actively working with client agencies to look at alternative (more cost effective/customer focused) ways of delivering services through the establishment of client agency facing Community Segment Teams. These teams have the responsibility for negotiating service delivery options that are designed to implement required policy options.
 - A recent example being the Working Credit initiative where customers are now able to report their earnings via an automated telephone service. The take up for this service is now three times higher (now 60 per cent of eligible customers) than originally envisaged, enabling policy outcomes to be met at reduced cost;
- Developing a performance culture utilising the balanced scorecard methodology to drive performance across the organization on key strategic areas. The Balanced Scorecard results are embedded at all levels in the organisation ranging from performance reviews for individuals and work units, to reporting against key client department indicators through to determining pay rises. In order to ensure best practice across the organisation Performance Management Meetings are held with key executives every six weeks to explore opportunities to mandate more cost effective solutions.
- Developing a good understanding of cost drivers and their impact on Centrelink's operating performance. In order to achieve this understanding Centrelink has developed a transaction based costing model (Strategic Cost Management) as a methodology to monitor cost drivers across the organisation and as the basis for establishing a transaction based funding model with funding agencies.
- Benchmarking against similar organizations in the private and public sector both nationally and internationally to actively explore opportunities for improvement.

- Developing a powerful leadership paradigm through the Guiding Coalition (Centrelink's Executive Leadership Team) to draw the essential elements of the organization together and create the momentum for change.

Planning for the Future

The Boston Consulting review has provided Centrelink with the framework for continuing to improve its cost efficiency and capability. Projects and processes are currently underway to:

- Better identify cost drivers and their impact across the service delivery network, with a particular focus on notifiable events,
- Review performance across the organisation with a focus on identifying and implementing uniform best practice approaches,
- Streamline and improve business processes and practices,
- Examine opportunities to further integrate the service delivery network,
- Explore opportunities to concentrate non-customer facing activities in specific sites and locations, and
- Actively pursue opportunities to move low risk transactions to self-service channels.

Summary

Centrelink, as a whole of government service delivery organisation, provides a useful model for controlling the baseline cost of social security administration. Initial efficiencies can be gained through the merging of service delivery networks but sustained cost reduction can only be achieved through the development of performance based culture that actively puts the customer at the centre of its focus.

Improving the cost-effectiveness of Service Delivery

Improving the cost-effectiveness of service delivery in the context of the new social policy agenda is essentially about finding ways of providing people with the services they need as individuals without incurring unmanageable increases in costs. This has been and will continue to be a major agenda both for Centrelink in its role as "gateway" to the participation support system and for FaCS and DEWR as the major purchasers of services from Centrelink.

This paper concludes by considering a number of areas of work aimed at making individualised service delivery more effective and more affordable.

Targetting

A threshold issue is the need for Government to be clear about its objectives and priorities in relation to participation and social support as a basis for decisions about the targetting of resources.

Broadly, some people require minimal assistance in order to find work and a low cost "self help" strategy for government assistance is likely to prove most cost effective. Others may not find work even after substantial expenditure on support and there may be a need to contain costs by early identification of risk factors or by not allowing or requiring repeated access to programs that have proved ineffective in the past.

For people at the mid point of the spectrum, those with problems that are real but not insuperable, the customised service delivery agenda comes into its own, and the task becomes to focus expenditure on those barriers and not on issues that are not relevant to the individual in question.

Information

In all of these cases, the starting point for providing appropriate services is having access to comprehensive and reliable information about individuals as a basis for assessing their entitlements and needs. The primary source of information will always be what individuals tell agencies about themselves and one of the key tasks for Centrelink and other service delivery agencies is to deal with people in ways which maximise the quality of information they provide. This requires attention to a range of issues including forms design, telephone and Internet access and the quality of interactions between agency staff and their customers/clients.

There is also a need for better information about the previous history of people claiming income support from Centrelink or approaching other service providers. The independent report which set welfare reform in Australian in train in 1999 (the McClure report) concludes that welfare reform requires an improved flow of personal information about customers to support better assessment and referral.

Better information sharing at a local level based on personal networks of service delivery staff and sharing information with the consent or through the agency of the customer is a key aspect of Centrelink's "gateway" role in linking service providers with jobless people in the context of individual participation plans.

Better Information Technology

In addition, the Australian Government has announced an Improved Information Technology measure that aims to develop improved customer information linkages between key agencies and service providers to help provide the basis for the efficient operation of the social support system.

IT systems should support individualised service delivery in the social support system by linking services, brokers and assessment as part of the ongoing monitoring of outcomes and the provision of a continuous range of assistance that is responsive to the changing needs of customers. The Improved IT measure aims to facilitate this assistance through:

- Reducing the customer reporting burden so that individuals no longer have to provide the same information multiple times to different government and non-government service delivery agencies and providers, and
- Ensuring service delivery agencies and service providers gain a more complete picture of a customers' situation and the previous services provided so that targeting of referrals and interventions can be improved.

Improving information sharing in this way will also provide data to support evaluation and research for policy development in the long term.

The four key government agencies involved in the provision of the social support system in Australia have been working together to develop a 'consolidated customer view' to implement this measure.

Implementation is being undertaken in a staged way because there are a large number of organisations involved in delivering social support services. (FaCS contracts with approx. 15,000 providers – ranging from emergency payments to disability employment services). We are concentrating on first providing better sharing of

information between the four key agencies of DEWR, DEST, Centrelink and FaCS. There is also the longer-term opportunity to identify where the provision of services through State Governments, local councils or privately charities may be "joined up". Centrelink is currently undertaking a trial with the Smith Family. After that we aim to provide better sharing of information between the service providers themselves so appropriate customer information is available, when services are being provided.

The overall outcome of this improved electronic information sharing will be more targeted provision of services to customers to ensure both efficient but more importantly effective delivery.

Profiling and Assessment

Given reliable information about individuals, the next requirement is for Centrelink and other service delivery agencies to develop ways of turning that information into appropriate decisions, advice and referrals for individuals. FaCS, DEWR and Centrelink are addressing this issue in two broad ways: through profiling, which identifies customer characteristics associated with particular risks, opportunities and outcomes: and through simplifying and improving the assessment processes which are applied to individuals when they apply for payments or are considered for admission to particular support programs.

Service Profiling is a method of selectively identifying and reviewing those customers who need a more focused level of service to assist them in meeting program outcomes including payment accuracy, activity testing and economic and social participation. The objective of profiling is to understand the relationship between specific customer characteristics (predictors) and program outcomes. In terms of accuracy of payment, profiling allows Centrelink to profile those customers most likely to incur a debt or receive an inaccurate payment. As such, profiling helps Centrelink to identify those customers at high risk of not achieving desired outcomes as a basis for targetting appropriate interventions.

In relation to assessment, Centrelink currently administers a variety of assessment processes which apply to different groups of clients, income support payments and support services. It is currently working with FaCS and DEWR to develop an

improved and integrated assessment system that will apply to all customers regardless of the payment they are receiving.

Referral

Another key element of the broad set of processes required to provide individualised service delivery is appropriate referral, by Centrelink or other service providers, to other agencies providing services to common customers. Centrelink is now working to develop a more detailed knowledge of the whole spectrum of assistance and opportunities available in each community both through the local networks and knowledge of key personnel, such as Personal Advisers, and also through developing new sources of information such as a "Community Connect" database which provides information about the full range of service available in a particular location.

FaCS is working towards a similar objective at a different level, by working with State Governments to develop collaborative arrangements linking the Australian Government's participation support system with services funded by State Governments, particularly in disadvantaged areas. For example, FaCS is working with the Victorian State Government to provide better income support and labour market services to people living in public housing funded by the State Government, and with the NSW State Government to support a major project focussing on disadvantaged urban areas in western Sydney.

These initiatives recognise that the cost effectiveness of Federal and State government programs can only be enhanced by making it easier for people to move between programs to access the package of services that meets their individual needs.

Conclusion

The key conclusions emerging from this paper are that policy and service delivery cannot be considered in isolation from each other and that maximising the cost-effectiveness of programs must be the key consideration in controlling the costs of social security administration. The service delivery agenda for Australia is set by its broad social policy objectives of early intervention and participation. Achieving those objectives requires significant up front investment which Governments will be

unwilling to consider unless baseline costs are reduced and programs can be developed which address the real needs of individuals in a cost-effective way.