



Management of Concessions by the Department of Human Services



VICTORIA

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Auditor-General

Management of Concessions by the Department of Human Services

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The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on *Management of Concessions by the Department of Human Services*.

Yours faithfully



D D R PEARSON
Auditor-General

24 February 2010

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Audit summary

Background

Low-income individuals and households often struggle to afford essential services and to keep up with rising living costs. Concessions help people on low incomes to access and afford essential services, such as water, energy, and housing. Affordable access to these services is often vital for social inclusion, good health and wellbeing.

The government pays for concessions through direct funding or foregone revenue at a cost of more than \$1 billion each year. The funding provides concessions to more than 700 000 households or more than 1.3 million Victorians. Concessions may benefit either individuals or entire households and typically are provided through discounts on standard fees and charges for services.

The state concessions system has been shaped over a number of years. Consequently, there are differences between particular concessions' operation and delivery. For example, the financial benefits for eligible recipients are capped for some concessions but not others.

State concessions are managed and delivered by a range of government departments, agencies and third parties. This audit focused on the Department of Human Services (DHS). It has both operational and policy units that are responsible for monitoring and reporting on all state government concessions, directly managing the provision of a range of concession and hardship programs and managing arrangements with external organisations for the delivery of concessions on utilities and municipal rates. Concessions administered through these DHS units make up around 27 per cent of all state concessions and cost \$329 million in 2008–09.

The objective of this audit was to assess whether DHS is effectively managing concessions, in terms of its forward planning and advice to government on the concessions system, the adequacy of its controls to assure the financial regularity of the concessions system, and its reporting on the concessions system.

Overall conclusions and findings

Forward planning and advice to government

In the future, the state concessions budget will come under severe pressure. Growing expenditure is being driven by increasing numbers of people eligible for, and seeking access to, concessions; and rising prices for services subject to concessions. In particular, energy and water costs are due to rise significantly. The forecast rate of increase in spending on concessions exceeds projected growth rates in state revenues, which will challenge the ongoing sustainability of the system.

The forward-planning activities of DHS have adequately highlighted and analysed issues and challenges to the ongoing effectiveness and financial sustainability of the concessions system. These findings have been adequately incorporated into sound advice to government. Notwithstanding this advice, there remain challenges with design and ongoing sustainability that have yet to be dealt with.

Individual concessions have not been assessed against the concessions policy framework since it was agreed by government in September 2007. To assure effectiveness, concessions need to be periodically assessed against the framework to test their alignment and inform priority setting in revision and reallocation of limited resources.

Controls over granting concessions

While improvements have recently been introduced, controls over the granting of concessions and hardship assistance need to be strengthened.

The incidence of ineligible people accessing concessions should be reduced by the more frequent verification initiated in 2009. However, action to increase the frequency of verifying eligibility for concessions has been slow and there has been inconsistency in the application of eligibility verification controls across concessions and hardship grant programs. The risk remains that not all people accessing concessions are entitled to them.

The provision of concessions by energy retailers, water authorities and local government has not been adequately monitored. Powers to gain assurance that adequate controls are operating over concessions provided by these organisations have not been used. Further, regular audits on these organisations have not been undertaken, nor have recommendations from previous audits been adequately addressed. Most of these organisations have never been audited.

In addition, the performance monitoring and reporting requirements for energy retailers have not been actively enforced. Retailers have not been penalised for non-compliance with agreed performance indicators. Without this deterrent or regular compliance audits, energy retailers have little incentive to comply with their obligations.

The administration fees that the state pays to external providers of concessions may be too high. Advice external consultants gave about fee costs in 2006 has not been pursued following initial retailer challenge.

Controls over the hardship assistance programs that DHS administers directly also need to be significantly tightened. Weaknesses in controls over the Home Wise grants scheme need priority attention given the growth in the cost of this scheme from \$1 million in 2006–07 to \$16.8 million in 2008–09. Checks now being undertaken on Home Wise applications are demonstrating the likelihood that ineligible applicants have been provided with Home Wise grants in the past.

DHS has taken, or plans to take, several steps that should start to address many of these issues.

Reporting on effectiveness

The transparency and accountability of the concessions program should be improved. Public reporting on the state concessions program is not timely. It is also difficult to determine how effectively concessions are performing against relevant government objectives.

Recommendations

Number	Recommendation	Page
	DHS should:	
1.	Update individual concession assessments against the government concession policy framework.	14
2.	Review administration costs paid to external organisations.	19
3.	Implement a performance reporting and monitoring framework for councils and water authorities.	20
4.	Determine to what extent improved eligibility verification has lowered concessions spending.	21
5.	Make sure that the effectiveness of its future compliance audit program is not compromised by issues with auditee systems.	24
6.	Give priority to addressing recommendations from future compliance audits.	24
7.	Implement an automated payments system with appropriate controls for concessions programs it manages directly.	28
8.	Address the control weaknesses of the Home Wise scheme as a matter of urgency.	32
9.	Include sufficient information and analysis in the annual report on the state concessions system to allow meaningful conclusions about the performance of concessions against government objectives.	37
10.	Publish the annual report on the state concessions system within six months of the end of the financial year.	37

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Human Services with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretary, Department of Human Services

The following is an extract of the response provided by the Secretary, Department of Human Services. The full response is provided in Appendix B of this report.

The Department of Human Services (DHS) welcomes the audit report and its findings as an opportunity to further improve the management and delivery of the statewide concessions program.

Every recommendation in the report has been accepted.

Significant changes have already been made. Verification checks for applicants for electricity, gas, water and rates concessions were strengthened and implemented successfully from July 2009 to ensure that only eligible applicants received concessions and that eligibility was checked continuously.

Work is already underway to implement the remaining recommendations.

As noted by the Auditor-General, Victoria assists more than 700 000 low income Victorians and provides more than \$1 billion worth of assistance each year through concession programs. DHS directly manages a number of these concession programs in addition to broader policy and monitoring responsibilities addressing affordability and hardship.

DHS notes the findings that its advice to Government has been sound, comprehensive and robust, reflecting and conveying strategic and operational advice.

RESPONSE provided by the Secretary, Department of Human Services – continued

In relation to specific issues in the report, DHS has the following comments:

- *Improvements to the annual reporting of concessions will occur over the coming year. New affordability and performance indicators will be developed, particularly where comprehensive data is not presently collected.*
- *The department will review the administration fees paid to external organisations.*
- *The department acknowledges the need for an automated payments system and has commenced action to implement this recommendation. DHS will also consider the results of the compliance audits for concession providers, which commence in 2010, to inform the development of this proposal.*
- *The department will release the Concessions Annual Report in a more timely manner.*

DHS acknowledges the significant community support and demand for the Home Wise program and had already moved in April 2009 to strengthen the program procedures before the audit had commenced. Significant improvements have already been made to financial controls for the Home Wise program. To ensure the strictest possible protocols apply, DHS:

- *Electronically verifies the eligibility of all applicants with Centrelink.*
- *Inspects the faulty appliances of all Home Wise applicants to determine whether they can be repaired or need to be replaced, and to confirm eligibility for assistance.*
- *Matches all retailer and repairer invoices to the departmental database to ensure that appliances and repairs are properly authorised.*
- *Inspects replacement appliances and repairs following installation or repair to provide quality assurance for repairs and to validate retailer invoices.*

Further, DHS will conduct a public tender for the appliances and services required for the Home Wise program in 2010, in order to ensure the best possible value-for-money purchasing arrangements are in place.

The department appreciates the contribution this audit will make to strengthening the delivery of the Statewide Concessions Program.

1 Background

1.1 Introduction

Low-income individuals and households often struggle to afford essential services and keep up with rising living costs. Concessions are intended to help low-income individuals and households access and afford essential services such as water, energy, housing, health and transport. Affordable access to these services is often vital for social inclusion, good health and wellbeing.

Concessions may benefit individuals or entire households and are typically provided through discounts on standard fees and charges for services. Other concessions can be reimbursements or rebates to recipients or a free service. Grants are also available in some circumstances to help people pay a utility bill or repair or replace essential household appliances or fittings.

The government pays for concessions through direct funding or foregone revenue at a cost of more than \$1 billion each year. This funds concessions and hardship programs for more than 700 000 households and more than 1.3 million Victorians.

1.2 Legislation and policy

While concessions are enabled under a range of state legislation it is principally the *State Concessions Act 2004* (the Act), which empowers the Minister for Community Services to determine how specific concessions will operate, including their amount and eligibility requirements. Consequently, the government can change concessions without amending the Act.

Concessions and hardship programs help meet the goals of *Growing Victoria Together*, which is the government's framework for priority setting, and the goals of *A Fairer Victoria*, the government's social policy statement.

A Fairer Victoria emphasises accessible and affordable universal services and targeted support for those in greatest need. Strategies in *A Fairer Victoria* aim to make services more affordable, make access fairer, keep older Victorians independent and increase access to affordable housing.

The government endorsed a concessions policy framework in 2007 that set out principles for the assessment and review of concessions. They emphasised:

- equity and fairness
- appropriate targeting
- simple, efficient and effective administration
- economic efficiency
- a financially sustainable concessions system
- clear lines of accountability for agencies providing or managing concessions
- transparency of concessions to stakeholders and the public.

1.3 Overview of the concessions system

The system offers concessions and assistance to low-income earners to access and afford essential services. Appendix A gives an overview of concessions, including whether the concession benefits the household or individual, and how each concession is paid to eligible persons.

The system has developed over time, and there are differences in the way particular concessions work. For example, some concessions are capped but not others. In addition, not all concession cardholders are eligible for all concessions. For example, health care cardholders are not eligible for the municipal rates concession or the concession on the Transport Accident Commission insurance charge.

Government departments, agencies and third parties manage and deliver concessions. These include the Department of Human Services (DHS), Department of Transport, Department of Education and Early Childhood Development, State Revenue Office, VicRoads, ambulance services, water authorities, councils, schools, and energy retailers.

Primarily, the state uses Commonwealth Government eligibility criteria for concessions. In the vast majority of cases, to be eligible for a state concession, applicants must hold a Commonwealth-issued pensioner concession card (PCC) or health care card (HCC). Eligible holders of a Department of Veterans' Affairs (DVA) repatriation health card (Gold Card) can also get concessions. The PCC and HCC are issued to individuals who satisfy Commonwealth determined eligibility criteria and who may receive particular payments or allowances from Centrelink. The DVA issues the Gold Cards to veterans of Australia's defence forces based on the type of service, disability or income and assets tests.

Eligibility for concessions is not based on Commonwealth-issued cards in all cases. In some cases other groups can access particular concessions. For example, foster parents and families on bridging visas can apply for the Education Maintenance Allowance, and children and students can access public transport concessions.

1.3.1 Concessions administered by DHS concessions units

DHS has two units, the concessions business management unit and the concessions policy unit, which are responsible for monitoring and reporting on all state government concessions and providing policy advice, directly managing the provision of a range of concession and hardship programs and managing arrangements with external organisations for the delivery of concessions on utilities and municipal rates. For the purposes of this report we either refer to the specific unit under discussion or, where appropriate, we use the term, the 'concessions units', to refer to the collective or joint activities of these units.

The DHS concessions units monitor and report on all state concessions and have operational and policy roles that cover:

- directly managing some concession and hardship programs
- managing government agreements with energy retailers
- monitoring concessions service delivery
- analysis of factors affecting concessions, including prices for essential services
- advising the government on the concessions system
- informing the community on concessions issues.

Figure 1A shows the concessions and hardship grant programs administered by the units. These programs are delivered by DHS and outside organisations.

Figure 1A
Concession and hardship programs administered by DHS concessions units

Concession or hardship program	Program description	Cost in 2008–09 (\$mil)
Winter Energy concessions	Reduction on mains gas and electricity bills between 1 May and 31 October	109.1
Water and Sewerage Rates concession	Capped discount on water and sewerage charges	96.3
Municipal Rates concession	Capped discount on council rates	75.6
Home Wise: Appliance and Infrastructure Grant Scheme	Grant to households for repair or replacement of an essential appliance that is faulty	16.8
Utility Relief Grant Scheme and Non-Mains Utility Relief Grant Scheme	Assistance for domestic customers unable to pay utility bills	5.4
Non-Mains Winter Energy concessions	Rebate on liquefied petroleum gas, non-mains electricity or alternative fuel for domestic use between 1 May and 31 October	2.6
Other	Other subsidised services, including trustee services	23.2
Total		329.0

Source: Victorian Auditor-General's Office with DHS data.

The concessions, hardship grants programs and other services that the units administer cost about 27 per cent of the total concession program.

1.4 Audit objective and scope

The objective of the audit was to assess whether the DHS concessions units are effectively managing concessions, focusing on:

- effectiveness of forward planning to advise the government soundly on the concessions system
- effectiveness of controls to assure the financial regularity of the concessions system
- effectiveness of monitoring and reporting on the concessions system performance against government objectives.

The audit included examination of selected concession and hardship assistance schemes for the period covering 2008–09 and up to 31 December 2009.

The audit was performed in accordance with the Australian Auditing Standards.

The total cost of the audit was \$310 000.

1.5 Structure of this report

The rest of this report is structured as follows:

- Part 2 assesses the concessions units' forward-planning activity and advice to government.
 - Part 3 examines the oversight of external organisations granting concessions.
 - Part 4 examines controls over concessions and hardship assistance granted by DHS.
 - Part 5 assesses the external reporting on the effectiveness of concessions.
 - Appendix A gives an overview of state concessions.
 - Appendix B sets out the DHS response to this report.
-

2 Forward planning and advice to government

At a glance

Background

Government objectives for the concessions system are to improve the affordability of essential services and reduce disadvantage in a financially sustainable way.

The Department of Human Services (DHS) concessions units play an important role in monitoring the impacts of challenges to the achievement of these objectives and providing advice to government.

Conclusion

The concessions system objective of financial sustainability is under threat, if current policy settings are maintained, as the cost of concessions is projected to grow at a greater rate than state revenues.

Findings

- The forward-planning activities of the concessions units have adequately highlighted and analysed the design and projected cost and financial sustainability of the concessions system.
- The results of this analysis have been reflected in sound advice to government.
- While the concessions units can assess the effect of various change drivers on the concessions system at a broad level, modelling capability is limited to utilities and rates concessions.
- Assessments of individual concessions against the government's concessions policy framework are not up-to-date.

Recommendation

- DHS should update individual concession assessments against the government concession policy framework.

2.1 Introduction

Current challenges for the concessions system are the rising numbers eligible for concessions, rising costs of essential services, and the design of some concessions.

To respond effectively the government needs sound and timely advice from relevant departments.

The Department of Human Services (DHS) concessions units provide and oversee some concessions and hardship grant programs, monitor the overall state concessions system and advise the government on concessions policy.

The audit examined whether the units had effective forward planning and had soundly advised the government.

2.2 Conclusions

The state concessions system is under pressure due to increasing numbers of recipients and increasing cost of concession services. Growth in demand is predicted to increase at a greater rate than state revenues. Because of its reliance on Commonwealth eligibility criteria the state's capacity to control expenditure is limited to how much it pays, not how many people it pays.

The concessions units have planned ahead, adequately highlighting and analysing issues that challenge the effectiveness and financial sustainability of the system. This analysis has been incorporated into advice to the government.

Notwithstanding this advice, there is still a serious risk to the system's financial sustainability, and system design remains problematic.

Individual concessions have not been reassessed against the government policy framework since it was set in September 2007. To assure effectiveness, concessions need to be periodically assessed against the policy framework to test their alignment and inform priority setting in any revision and reallocation of limited resources.

2.3 Challenges facing the concessions system

There are significant budget challenges in keeping essential services affordable for low-income households. These challenges are summarised below.

The Commonwealth eligibility model

The state has based concessions eligibility on the Commonwealth-issued pensioner concession and health care cards. This takes the cost and targeting of concessions largely out of the state's control.

Applicants for state concessions must hold either a:

- Commonwealth pensioner concession card (PCC)
- Commonwealth health care card (HCC)
- Department of Veterans' Affairs (DVA) repatriation health card (Gold Card).

People who receive specific benefits from Centrelink get the PCC and/or HCC. DVA issues Gold Cards to Australia's defence force veterans under certain criteria.

The 2007–08 annual report on the state concessions system prepared by DHS showed that more than one-third of households may be eligible for concessions if utilities and other services or charges are in the name of the concession cardholder.

The primary ways the state can control concessions spending are either through cuts in the value of concessions or limiting access.

The *State Concessions Act 2004* (the Act) allows the state some flexibility to target concessions. The Minister for Community Services may determine how specific concessions will work by issuing an order under the Act to determine eligibility. The minister has not used this power to further narrow eligibility.

To use its capacity to narrow the eligibility criteria for specific concessions, the state would need to establish and fund its own administrative systems and processes. This has been examined on a number of occasions in recent years. The most recent review indicated it would not be cost effective.

Demographic changes

The concession cardholder population is influenced by changes to Commonwealth Government income security policy, an ageing population, and the number of self-funded retirees.

Advice to government in September 2008 indicated that population growth and the ageing population were expected to increase the number of concession cardholders by 2.1 per cent per annum over the following five years.

Changing economic conditions

The cost of the state concessions system is influenced by economic conditions, such as inflation and unemployment rates.

With some concessions indexed to the Consumer Price Index, growth in consumer prices will raise concessions expenditure.

Economic downturns, such as the global financial crisis affect concessions costs. The state's financial report for the first quarter of 2009–10 anticipated further rises in the unemployment rate from the 2008–09 rate of 5.1 per cent.

Centrelink data showed a 7 per cent rise in concession cardholders in Victoria in the year to June 2009. This is significant compared with the September 2008 projections, and may reflect increased unemployment from the global economic downturn.

Rising prices for essential services

Prices for essential services, like energy and water, are expected to rise significantly over the next five years due to market forces, pricing mechanisms and government responses to the drought and climate change:

- water prices are forecast to double over the five years from 2008–09
- electricity and gas tariffs rose by up to 17 per cent in 2008 and up to 9 per cent in 2009.

The government was advised in early 2009 that electricity and gas tariffs were likely to keep rising. As costs rise, so too will concessions expenditure for concessions that are a percentage of the billed amount.

By early 2009 there was increasing demand for utilities hardship assistance. Grants from the Utility Relief Grant Program to assist people pay electricity and gas bills rose 49 per cent in the first six months of 2008–09, compared with the same period in 2007–08.

Calls to the concessions information phone line numbered 46 000 in the first quarter of the 2009–10 financial year, compared with the target of 10 000, a further indication of a possible rise in demand for concessions.

Differences in the design and operation of various concessions

The state concessions system has developed over a long time in response to various policy objectives and under multiple departments. Consequently, the concessions' operation and delivery vary.

Differences are in eligibility, the way consumers access entitlements, the types of entitlement and the administration costs.

Differences in the design and operation of concessions affect the cost and how well they meet government objectives to assist low-income individuals and households to access and afford essential services.

Some concessions entitlements are capped and others are not, causing inconsistencies in how different concessions respond to price increases for underlying services. For capped concessions the impact of price increases on concession recipients already at the cap will not be covered by the concession, unless the cap is increased to match the rate of price increase.

For example, the stated objective of the municipal rates concession is to give a 50 per cent discount off council rates, but it is capped at a maximum of \$184.30 in 2009–10. Local Government Victoria data shows that the cap is about 18 per cent of the median rate. This suggests that the concession of 50 per cent is now largely notional.

Maintaining the value of a capped concession is challenging when prices are constantly and often rapidly rising. However, this is also when low-income households are more likely to need government support.

The design of some concessions reduces the targeting of assistance. This is because the operation of some concessions can benefit individuals who do not have concessions cards and who would therefore not normally have a concession entitlement. For example, where a household bill is in a concession cardholder's name and bills are shared with other household members who are non-concession card holders, such as in a shared house, or where a pensioner lives with their adult children.

2.4 Projected concessions costs

Spending on concessions alters as a result of changes in:

- the number of concession cardholders
- the price of goods or services where the concession is directly linked to the price
- government policy on concessions.

Figure 2A shows an increase of 20 per cent in total estimated concessions spending from 2006–07 to 2009–10.

Figure 2A
Trend in concessions expenditure by category

	2006–07 (\$mil)	2007–08 (\$mil)	2008–09 (\$mil)	2009–10 (\$mil)	Percentage change over 3 years
Energy, municipal rates, water and sewerage	257	268	279	285	11%
Education	63	70	71	76	21%
Health	447	506	522	562	26%
Hardship assistance	18	23	41	44	144%
Transport	236	247	256	265	12%
Total	1 020	1 115	1 169	1 231	20%

Note: These amounts are estimates based on advice from relevant departments. Totals may not add due to rounding.

Source: Department of Treasury and Finance Budget Updates for 2008–09 and 2009–10.

Until 2007–08, increases in concessions expenditure were mainly due to changes in government policy on particular concessions and some price rises in concessional services. Changes have typically added to the cost of the state concessions program to meet policy goals around the accessibility and affordability of essential services.

The long-term outlook for concessions expenditure is significant growth due to increasing numbers of recipients, rising prices (particularly for essential services) and economic volatility. Based on current revenue and expenditure policy settings, this growth is not sustainable.

In March 2008 the government was advised that concession cardholders were expected to increase from 1.3 million to 1.6 million by 2022, or 1.6 per cent per annum; and concessions spending would rise from \$1.1 billion to \$2.1 billion by 2022 or 3.9 per cent per annum.

In September 2008, DHS and the Department of Treasury and Finance (DTF) reported to government on eligibility for concessions. The report discussed the challenges to the concessions system and included updated projections of concessions expenditure growth over the five years from 2008–09. These projections showed that concessions spending might rise at rates of between 7.3 to 9.6 per cent per annum over five years from 2008–09, depending on the assumptions adopted. Government revenues are projected to rise at around 4 per cent over this period.

Because it relies on Commonwealth eligibility criteria, the state's capacity to control expenditure is largely limited to the use of dollar caps on concessions or cutting the value of concessions.

Narrowing eligibility for concessions would incur additional administration costs due to the need for a centralised administration to set and check eligibility requirements in addition to holding a Commonwealth concession card. The costs of such a system would also depend on the level of cooperation from the Commonwealth Government and Centrelink.

Figure 2B summarises reviews of the concessions system and related issues since 2003.

In relation to the current status of action in this area, DHS has been working with the Commonwealth to address the finding of the 2008 Commonwealth Pension Review that the targeting of concession cards does not effectively complement the role of income support in addressing the needs of groups with high costs. The Community and Disability Services Ministers' Advisory Council is expected to consider an options paper in October 2010 on the future direction of concessions. In addition, and in line with the direction provided by government in September 2008, DHS and DTF will reconsider energy concessions, and undertake further work to consider the appropriateness and viability of introducing a proportional concessions system and/or a tiered concessions system following the outcomes of the Commonwealth Tax Review and the Carbon Pollution Reduction Scheme.

Figure 2B
Reviews of concessions system since 2003

Reviews of concession programs since 2003 have largely focused on system design and options for limiting costs. The concessions units have taken part in these reviews and in advising government.

A DTF review of concessions in 2003 identified several issues, including the lack of a clear rationale for most concessions. This review contributed to administrative reforms in 2004, changed expenditure priorities, and a new focus on maintaining the real value of caps. Notwithstanding these reforms, many challenges remain.

In 2007 the former Treasurer wrote to the Minister for Community Services indicating it was time to consider further reforms to make sure taxpayers were receiving 'value for money'. The Treasurer asked the minister to present some options by February 2007.

In May 2007, the government announced in its *A Fairer Victoria* policy that it would update concessions and find new ways to make services more affordable for low-income families.

Reform options examined since early 2007 include targeting eligibility by excluding part pensioners or new part pensioners, or giving them concessions tied to their pension entitlement. Another option was to exclude new pensioners with assets above a certain amount. Replacing some or all concessions with a single payment was also considered.

In September 2008, DHS and DTF reported to government on a new option for reducing concession cardholders' eligibility via means testing and asset and income thresholds.

The report found minimal savings from setting a threshold income level for eligibility unless it was based on a measure of relative household income, which would be complex and costly. While the analysis looked at the effect on the state budget it did not measure the effect on the affordability of essential services and financial stress for individuals or households.

Consequently, the report concluded that the scope for such improvements was limited, and recommended more work.

Decisions on options have been deferred until the Commonwealth has decided on climate change, the pensions review and the tax review. The community expects that concessions will continue to be available to holders of the PCC, HCC and Gold Cards.

Seeking to limit costs by reducing the range, value or indexation of concessions would reduce their value for the concession cardholder population, regardless of customer circumstances. This would have a disproportionately negative effect on cardholders with lower income and assets, and concessions households that incur higher energy and water costs, such as families.

Source: Victorian Auditor-General's Office with information from DHS.

2.5 Forward planning and advice to government

These challenges create the following risks for the state:

- the concessions system may fail to meet government objectives and policy commitments, as capped concessions decline in real value over time
- growth in concessions expenditure, due to increasing demand, may outstrip expected growth in state revenues, and thereby reduce budget flexibility.

The DHS concessions policy unit monitors the concessions system and related developments and advises the government on policy. The unit has resources dedicated to this role. It has contributed to several reviews of the concessions system over the past six years.

2.5.1 Adequacy of forward planning

In its forward planning, the concessions policy unit monitors the system and identifies and assesses the effects of emerging challenges and risks. The unit:

- used adequate tools and activities for forward planning but its modelling capability is restricted to utilities and municipal rates concessions, which represent less than a quarter of concessions
- looked at design issues for the entire concessions system and for specific concessions and their alignment with government aims and the projected cost of the system
- consulted with key stakeholders or their representatives
- evaluated or analysed specific concessions and other relevant developments, research, and evaluations or reviews in other jurisdictions and nationally
- liaised with other relevant government agencies and regulators and other jurisdictions
- is strengthening its research and data collection and analysis.

The unit uses research and forward-planning tools that consider changes affecting the concessions system. These changes range from consumption patterns to price variations in essential services. However, the unit models only utilities and rates concessions, which represent around 23 per cent of state concessions but not stamp duty, transport, vehicle registration and education.

In 2006, DHS investigated extending its model to forecast and analyse policy changes for all concessions. However, the data for other concessions was too limited to use in the model.

The unit again started to look for opportunities to improve several of its modelling tools in 2009 and to consider alternatives.

2.5.2 Adequacy of advice to government

The concessions policy unit's advice to government over the past six years was comprehensive. The advice typically included robust analysis of options and their implications for meeting government aims and policy commitments for concessions and the financial implications for the system.

Notwithstanding the limitations with modelling, the unit's forward planning has highlighted issues with the design and projected cost and financial sustainability of the system. The results, set out in advice to the government, have adequately reflected and conveyed strategic and operational advice.

Sometimes forward-planning activity or government requests led the unit to examine options for changes to the system, such as the introduction of a cap on a concession or changes to an existing cap. The unit modelled the effect of such potential changes on consumers and included the results when advising the government.

2.5.3 Opportunities for improvement

The unit faces challenges in getting useful timely data on some concessions from other state providers. It cannot monitor take-up levels for individual concessions because it has no data on the number of households with concession cards.

It has started to improve its forward planning, through better research, data collection and quality assurance.

Assessments against concessions policy framework

In September 2007 the government agreed a concessions policy framework to review and reform concessions.

The framework set out principles and assessment questions focusing on:

- equity and fairness
- appropriate targeting
- simple, efficient and effective administration
- economic efficiency
- financial sustainability
- clear accountability for agencies providing or managing concessions
- transparency of concessions to stakeholders and the public.

Under the framework, data was to be periodically collected to measure the cost, number of recipients and administration costs for individual concessions.

The unit initially assessed individual concessions against the framework during 2007 but has not repeated this exercise. Given that the purpose of the framework was to provide a structure for regular review and reform of concessions programs this gap needs to be addressed.

The concessions units are considering defining performance indicators for each concession program and establishing a regular data reporting and review process. This information does not currently exist in a consolidated, up-to-date and easily accessible form.

Recommendation

1. DHS should update individual concession assessments against the government concession policy framework.
-

3 Oversight of externally provided concessions

At a glance

Background

The Department of Human Services (DHS) concessions business management unit manages arrangements between the state and various external organisations that provide about \$280 million in concessions each year.

Conclusion

The oversight of external concession providers needs to be improved as powers to gain assurance that there are adequate controls over the granting of concessions by external organisations have not been used.

Findings

- Individuals and households receive concessions when they are not eligible. The incidence of people wrongly accessing concessions should be reduced by more frequent eligibility verification introduced in 2009.
- Audits of organisations providing concessions on the state's behalf have been infrequent and substantive non-compliance and other problems identified have not been addressed.
- Auditors to manage a compliance audit program are to be appointed in early 2010.
- State-paid administration fees to external concession providers may be too high.

Recommendations

DHS should:

- review administration costs paid to external organisations
- implement a performance reporting and monitoring framework for councils and water authorities
- determine to what extent improved eligibility verification has lowered concessions spending
- make sure that the effectiveness of its future compliance audit program is not compromised by issues with auditee systems
- give priority to addressing recommendations arising from future compliance audits.

3.1 Introduction

The concessions business management unit manages arrangements between the state and a range of external organisations for the provision of the concessions shown in Figure 3A.

Figure 3A
Externally provided concessions oversighted by DHS

Concession or hardship program	External organisation	Cost in 2008–09 (\$ mil)
Water and Sewerage concession	Water authorities	96.3
Municipal Rates concession	Local councils	75.6
Mains Electricity concession	Electricity retailers	66.0
Mains Gas concession	Gas retailers	43.1
Total		281.0

Source: Victorian Auditor-General's Office using DHS data.

To assure that external organisations provide concessions on time to eligible recipients and in the right amount the following are needed:

- documented requirements on controls for the granting of concessions
- clear roles and responsibilities for external organisations granting concessions
- minimum standards for verifying eligibility
- adequate oversight to monitor external organisations granting concessions
- adequate mechanisms, including regular audits to assure controls are working effectively.

3.2 Conclusions

The monitoring of external organisations providing concessions needs to improve.

Powers to assure that there are adequate controls in external organisations granting concessions have not been used. External organisations have not been regularly audited and recommendations from previous audits have not been adequately responded to. Most of the organisations have never been audited.

Performance monitoring and reporting requirements for energy retailers have not been actively enforced. Retailers have not been penalised for non-compliance with performance indicators. Without this discipline and the lack of regular compliance audits, energy retailers have little incentive to meet their obligations.

Infrequent checking of eligibility has meant that some individuals or households received concessions when they were not entitled. The incidence of people wrongly accessing concessions should be reduced by more frequent eligibility verification introduced in 2009.

The administration fees the state pays to external concession providers may be too high.

3.3 Control guidelines for granting concessions

There is a comprehensive framework that sets out the obligations and responsibilities of external providers of energy, water and municipal rates concessions. It includes:

- legislation
- Ministerial Orders issued under the *State Concessions Act 2004*
- Community Service Obligations (CSO) agreements
- Administrative Guidelines approved by the Minister for Community Services.

Arrangements between the state and concession providers vary. CSO agreements are with electricity and gas retail companies. Administrative guidelines are for local councils and water authorities.

3.3.1 CSO agreements with electricity and gas retailers

There are CSO agreements with 21 electricity and gas retailer companies (the companies) for energy concessions.

The CSO agreements clearly set out state's expectations on controls over granting concessions. They also give DHS powers to monitor and enforce performance.

The CSO agreements include:

- eligibility criteria and calculation of the concession amount
- minimum standards for verifying and reporting applicant eligibility
- arrangements for state reimbursement for the companies providing concessions
- payment of administration fees to the companies
- DHS's powers to do annual compliance reviews and audits on the companies
- staff training and complaints handling by the companies
- data collection and reporting, including reporting against key performance indicators (KPIs)
- DHS's powers to withhold or recover administration costs from companies that fail to achieve the specified KPIs.

Review and updating of CSO agreements

The CSO agreements were developed in the mid-1990s and were last reviewed in 2006–07. Regular review of the agreements is important so they continue to reliably reflect the government's requirements.

Of the twenty-one CSO agreements, seven were due to expire on 30 June 2008 and another nine on 30 June 2009. The expiry dates for these agreements were extended to 30 June 2010. The content of the agreements is being reviewed to inform new agreements initially planned for 1 July 2010. Following our finding that this time line was unlikely to enable the review to be informed by the results of any recent audits of companies' compliance with the agreements because of the planned timing of those audits, DHS will further extend the expiry dates on the current agreements to 30 June 2011. This extension will also provide sufficient time to consider the results of compliance audits of electricity and gas companies, to undertake a review of administration costs paid to the companies, and to introduce new performance monitoring and reporting arrangements.

DHS audits in 2005 and 2006 recommended that the KPIs in the agreements be reviewed to assure they were adequate. They also recommended that companies improve reporting and monitoring of their performance against the KPIs. DHS has not acted on these recommendations.

The concessions business management unit's work plan for new CSO agreement for energy companies includes the review of reporting requirements but not the adequacy of the KPIs. The unit's work plan should be extended to include a review of KPIs.

For example, one KPI allows companies a 5 per cent error margin in the percentage of customers granted a concession who are not proven as eligible. The 5 per cent margin should be reduced to reflect the more frequent eligibility verification checks required since 1 July 2009.

Administration fees

Administration fees are paid to energy companies for delivering concessions.

As they exclude mark-up or profit, administration fees should meet the direct avoidable costs of providing the service. The agreements include a schedule of administration fees. For example, the fee for administering the Winter Energy concession is 60 cents for each concession provided.

These costs were last reviewed in 2006. This review found companies were not complying with reporting requirements on administration costs and DHS was not monitoring and enforcing compliance. It also found that companies used different ways to derive the cost data and that they included costs that were not strictly avoidable.

Based on data supplied by the companies, the 2006 review recommended that lower administration fees be negotiated to match the costs of an efficient retailer. For example, the review suggested a 30 per cent reduction was warranted for the administration fee on the Winter Energy concession. For the Utility Relief Grants Scheme it suggested a 34 per cent cut in fees payable to the companies.

DHS raised the issue with the energy companies, but following their adverse reaction it did not follow through to reduce the fees or justify the status quo. The concession business management unit's work plan for a new CSO agreement for the energy companies did not initially include a review of administration costs, but was amended to do so following observations from this audit.

DHS started paying administration fees to water authorities and councils from 1 July 2009, based on the rates it pays energy companies.

The base rates for administration fees were set in the mid-to-late 1990s. It is reasonable to expect that energy companies should have become administratively more efficient and saved costs since then. DHS should exercise its right under the CSO agreements to review administration costs to assure itself that the public is getting value for money.

Any cuts in administration costs should similarly apply to water authorities and councils given this was the basis used for setting fees.

Recommendation

2. DHS should review administration costs paid to external organisations.

3.3.2 Guidelines for water and council rates concessions

Administrative guidelines describe the controls DHS requires for granting water and council rate concessions. Ministerial Orders require water authorities and municipal councils to comply with DHS administrative guidelines. The guidelines therefore have clear status and authority.

The guidelines are not as extensive as the CSO agreements with energy retailers but do adequately cover:

- eligibility criteria and calculation of the concession amount
- minimum standards for verifying eligibility
- arrangements for state reimbursement for concessions
- the state's payment of administration fees for the delivery of concessions
- DHS's powers to conduct annual compliance audits on the councils and water authorities
- staff training and complaints handling.

The guidelines do not cover routine performance reporting and monitoring.

DHS updated the guidelines for councils and water authorities in October and November 2009, respectively. The main changes were new minimum standards for eligibility verification and the introduction of administration fees for water authorities and councils.

The concessions business management unit is seeking advice on setting up agreements with water authorities and municipal councils on the delivery of concessions similar to the CSO agreements with energy companies. A DHS internal audit raised this issue in May 2009. Any future CSO agreement with water authorities and councils should establish performance reporting and monitoring requirements.

Recommendation

3. DHS should implement a performance reporting and monitoring framework for councils and water authorities.

3.4 Eligibility verification

Concessions should only go to eligible people. Verifying eligibility means checking that a person who claims to be eligible for a concession is in fact eligible. To be eligible for concessions applicants must legitimately hold a Commonwealth-issued concession card.

Before 1 July 2009, under the CSO agreements, energy retailers were required to do eligibility verification checks twice a year with Centrelink and the Department of Veterans' Affairs (DVA). The administrative guidelines required water authorities and councils to do this once a year. This system of organisations relying on sighting a concession card as proof of eligibility, and infrequent eligibility verification checks created the risk of error and fraud.

Compliance audits and other reviews have noted the need to increase the frequency of eligibility verification. Some improvements were introduced in this area as part of the concessions reforms in 2004.

3.4.1 Eligibility verification since 1 July 2009

Advice provided to government in March 2008 referred to Commonwealth Government estimates that as many as 25 per cent of concession cardholders no longer receive a Centrelink pension or payment but continue to hold a card that has not yet expired. This indicates that a similar proportion of people may be obtaining concessions to which they are no longer entitled.

The advice to government that noted this estimate recommended that concession providers check eligibility more often. It estimated this could save \$13.3 million in annual concessions for energy, water, municipal rates and stamp duty.

Government decided in March 2008 that major concession programs, including utilities and municipal rates, should electronically verify applicants as a minimum before issuing a bill. This was to be introduced progressively from 1 July 2008, and energy, water and council rates concessions providers had until 1 July 2009 to prepare. These targets were met when the new verification requirements were introduced by energy, water and council rates concessions providers from 1 July 2009.

DHS negotiated a change to the CSO agreement for energy companies to implement the government decision. The amended agreements require the companies to verify applicant's eligibility quarterly with Centrelink. This is not the same as verifying eligibility before issuing each bill as required by the government decision.

DHS advised that feedback from the energy companies indicated that their billing cycles mean that they issue bills to different groups of customers daily and that the administrative burden of checking the eligibility of relatively small numbers of customers each day would be high and costly. On this basis, DHS agreed to accept quarterly checking of concession customers' eligibility. This is a practical outcome but increases the risk that some people will receive concessions to which they are not entitled.

Energy retailers are required to provide DHS with summary reports on the results of regular eligibility verification checking. DHS received reports from less than half of the energy retailers on the results of the verification process required on 1 October 2009. The reports received by DHS showed that the percentage of customers claiming to be eligible for a concession whose eligibility could not be verified ranged between 1.8 per cent and 9.2 per cent. DHS is following up the retailers who failed to report.

A KPI in the CSO agreement sets a target of 5 per cent for the proportion of customers claiming eligibility for a concession who cannot be verified as eligible with Centrelink. Only one of the five retailers who reported to DHS on the results of the October 2009 verification process met this KPI target.

Recommendation

4. DHS should determine to what extent improved eligibility verification has lowered concessions spending.

3.5 DHS monitoring of concession providers

For concessions delivered by energy retailers, water authorities and councils, DHS should have adequate:

- oversight arrangements to monitor and enforce performance
- audit mechanisms to assure that controls are working effectively and to detect weaknesses
- responses to issues from the oversight and audits.

3.5.1 Electricity and gas concessions

The CSO agreements for electricity and gas retailers require them to report to DHS, and empower DHS to monitor and enforce performance and regularly audit compliance.

Retailers are required to report their performance against nine KPIs, including:

- percentage of concessions granted to ineligible customers
- percentage of customers that cannot be matched with Centrelink or Department of Veterans' Affairs (DVA) verification systems
- costs of delivering concessions
- customer information about available concessions
- appropriately qualified and experienced staff
- compliance with requirements when disconnecting customers from the energy supply.

The agreements state how often the companies must assess their performance and how much DHS can recover if companies underachieve.

Despite the robust accountability provisions in the agreements:

- information on company performance against all KPIs is not periodically collected and analysed
- utility companies are not penalised when they fail to meet KPIs
- compliance with reporting requirements has not been enforced.

Monitoring has been limited to processing companies' invoices for reimbursement and dealing with customer complaints.

DHS relies on compliance audits to identify issues and any control weaknesses. These audits have been infrequent and the recommendations have not been responded to adequately.

DHS audited three gas and three electricity retailers for compliance with CSO agreements in 2004 and 2006, respectively. It now has CSO agreements with 7 gas retailers and 14 electricity companies but has not audited the additional companies.

The audits found non-compliance and problems with verification, invoicing, and reporting and monitoring, and at the electricity companies it found problems with the information given to customers about concessions. Both audits raised questions about how well DHS was monitoring the agreements.

The recommendations from these audits have not been adequately addressed.

The DHS *Office for Children Policy and Funding Plan 2006–09*, released in June 2006, committed to audit gas and electricity retailers' compliance with CSO agreements by mid-2008 and September 2009, respectively. These audits were not undertaken.

3.5.2 Municipal rates concessions

The administrative guidelines for council concessions on municipal rates do not allow for routine performance monitoring other than through the regular reimbursement of claims. DHS therefore, relies on compliance audits to assure the controls are adequate.

The only audit of council compliance with the concessions requirements was in 2006 and covered 8 of the 79 councils. The audited councils covered a range of sizes and geographic areas. The audit found that:

- council systems and monitoring and reporting on concessions could be improved, with only one council having completely accurate data on some matters
- most councils informed ratepayers about pensioner concessions adequately
- customer service staff had adequate training to answer general enquiries about concessions and make an initial assessment of eligibility
- councils varied in using and complying with the administrative guidelines
- DHS responses to council requests for help were typically timely and useful
- councils had trouble getting verification assistance from Centrelink.

The audit recommendations included the need for KPIs for council delivery of concessions. DHS has yet to address this.

3.5.3 Water and sewerage concessions

The administrative guidelines for water and sewerage concessions from water authorities also do not provide for routine performance monitoring other than through the reimbursement of claims for concessions granted. DHS relies on compliance audits to assure the controls are adequate.

The only audit of water authority compliance with concessions requirements was in 2001 and covered all three metropolitan water agencies and 6 of the 15 non-metropolitan water agencies. The audit found that:

- eligibility checks did not always comply with the legislation and administrative guidelines
- agencies could not verify the eligibility of some concession customers when they paid by telephone or internet
- water authorities did not review third-party service providers taking bill payments on their behalf to verify that they were checking eligibility for concessions
- the annual verification process against Centrelink and DVA records was time consuming and inefficient
- reimbursement claims were inconsistently completed across the water industry
- customers were adequately informed about their entitlements.

The audit recommended improved communication between DHS and water agencies and the need for water agencies to report on their performance in providing concessions. DHS has not established a performance reporting framework for water agencies.

3.6 Future audits of parties delivering concessions

DHS intends to start a new compliance audit program in 2010 for external organisations delivering concessions and advertised the tender in October 2009.

Limitations in external concession providers' internal systems and reluctance to provide data on customers claiming concessions on privacy grounds raised problems in previous compliance audits due to the unavailability of information relevant to the audits. Some of these issues and scope limitations were the subject of recommendations arising from those audits. The failure to act on recommendations that aimed to ensure that companies would gather and retain sufficient information to demonstrate compliance with the CSO agreement may compromise the effectiveness of DHS's future audit program.

Recommendations

5. DHS should make sure that the effectiveness of its future compliance audit program is not compromised by issues with auditee systems.
 6. DHS should give priority to addressing recommendations from future compliance audits.
-

4 Controls over concessions granted by DHS

At a glance

Background

The Department of Human Services (DHS) concessions business management unit manages hardship grants and concessions worth about \$26 million per year. The two major schemes provide assistance when an eligible person cannot pay a utility bill or afford to replace an essential item.

Conclusions

Checks now being undertaken on applications for hardship assistance are demonstrating the likelihood that ineligible applicants have been provided with grants in the past.

DHS has been inconsistent in the way it checks eligibility and needs to strengthen controls for granting concessions and hardship assistance.

Findings

- Controls over concession and hardship assistance need to be strengthened.
- Improving eligibility checks for concessions has been slow and the application of eligibility verification controls across concessions and hardship grant programs has been inconsistent.
- DHS policy and procedure documentation for the management and oversight of individual concessions is inadequate.
- The Home Wise grants scheme increased from \$1 million in 2006–07 to \$16.8 million in 2008–09. The audit found weaknesses in controls over this scheme.

Recommendations

- DHS should implement an automated payments system with appropriate controls for concessions programs it manages directly.
- DHS needs to address the control weaknesses of the Home Wise scheme as a matter of urgency.

4.1 Introduction

The Department of Human Services (DHS) concessions business management unit delivers the concessions and hardship grants shown in Figure 4A.

Figure 4A
Concession and hardship programs run by DHS

Concession or hardship program	Program purpose	Cost in 2008–09 (\$mil)
Home Wise Grants Scheme	Hardship grants to households to repair or replace faulty essential appliances	16.8
Utility Relief Grant Scheme (URGS)	Hardship grants to assist households pay outstanding utility bills	5.4
Non-Mains Winter Energy concession	Rebate on liquefied petroleum gas, non-mains electricity or alternative fuel for domestic use between 1 May and 31 October	2.6
Life Support concession	Provides discounted water for concession cardholders using a haemodialysis machine	0.8
Carted and Non-mains Water Rebate concession	Rebate to assist low income households who are not connected to mains water supply	0.1
Medical Cooling concession	Previously known as Multiple Sclerosis concession	0.1
Total		25.8

Source: Victorian Auditor-General's Office with DHS data.

Effective controls for paying correct concessions amounts on time to eligible recipients should include:

- documented policies and procedures on controls
- clear roles and responsibilities for staff and third parties
- minimum standards for verifying eligibility so only eligible people receive concessions
- adequate mechanisms, including regular audits, to assure that controls are effective.

4.2 Conclusions

While DHS made some improvements during the course of this audit, it needs to strengthen its controls for granting concessions and hardship assistance.

The department has been inconsistent in the way it checks eligibility for concessions and hardship grants and slow to introduce more frequent eligibility checks.

The department needs to immediately address weaknesses in the Home Wise grants scheme given that the cost rose from \$1 million in 2006–07 to \$16.8 million in 2008–09. It is clear that ineligible applicants have received Home Wise grants.

DHS now plans to address these issues.

4.3 Adequacy of policies and procedures

The concessions business management unit has managed and oversighted the delivery of a range of important concessions since the mid 1990s. DHS did not have consolidated documentation of policies and procedures for its concession processes at the time of this audit. A May 2009 internal audit on the concessions payment system found a lack of procedure documentation.

DHS is developing policy and procedure documents on payment and financial control procedures for each concession payment type. The time line for this process has been extended to take into account the findings from this audit. These policies and procedures are planned for completion by 30 June 2010 and should help strengthen concession program management.

4.4 Eligibility verification

DHS has been verifying applicants' eligibility for the non-mains winter energy concession and the non-mains carted water concession against the Centrelink database for some time.

However, DHS was slow starting to verify eligibility for its hardship grants programs, Home Wise and the Utility Relief Grant Scheme (URGS). These programs have been in place since the late 1990s. DHS did not commence electronic verification of applicant eligibility with Centrelink until November 2009, during the course of this audit.

The failure to verify eligibility in real time before this, increased the risk that grants were provided to people who were not eligible.

4.5 General control weaknesses

A review of the DHS concessions business management unit's internal controls by the department's finance branch in the first half of 2009 showed the need for additional controls over payment processing for the non-mains winter energy concessions and the non-mains carted water concession. The unit has introduced these additional controls.

A May 2009 internal audit into the concessions payment systems showed concession claims were processed, reconciled and approved manually. It concluded that manual processing was inefficient, made tracking payments difficult and might increase inconsistency in applying internal controls. It might also mean incorrect payments could go undetected if there were no proper audit trail.

DHS considered the development of an automated payments system prior to the end of 2009 and determined to proceed with the proposal when payment and financial control procedure documents are finalised in June 2010. The department indicated that this approach allows it to take into account the findings from this performance audit and the results of compliance audits on concession providers to be conducted in early 2010.

Recommendation

7. DHS should implement an automated payments system with appropriate controls for concessions programs it manages directly.

4.6 Control weaknesses for specific grants

Serious control weaknesses were identified in two DHS administered hardship relief programs, Home Wise and URGS. The weaknesses meant DHS could not provide assurance that grant amounts were correct and paid to eligible recipients. DHS is now responding positively to this issue.

4.6.1 Home Wise

The Home Wise grants scheme helps applicants by funding the repair or replacement of an essential, faulty appliance such as a refrigerator, washing machine or oven or stove.

Guidelines for the scheme require applicants to be an eligible concession cardholder and demonstrate that they have no savings to repair or purchase a replacement appliance. Individuals are entitled to have two appliances repaired or replaced over 10 years.

Demand for Home Wise grants increased dramatically from 177 in 2005–06 to almost 17 000 in 2008–09. Although the 2008–09 budget was \$3.1 million, actual expenditure was over \$16 million, an overrun of nearly 450 per cent. Figure 4B shows the growth in Home wise grants in recent years.

Figure 4B
Home Wise Hardship Grants

Year	Number of recipients	Expenditure (\$mil)
2005–06	177	0.2
2006–07	1 085	1.0
2007–08	2 729	2.2
2008–09	16 877	16.8
2009–10 (to 31 Dec 2009)	N/A	11.0

Source: Victorian Auditor-General's Office, using DHS data.

DHS advised the minister in late 2008 that the increased demand arose from better information and publicity about the scheme, and the announcement of a funding increase in the 2008–09 budget. It also advised the minister that the annual cost of the scheme could grow to about \$54 million in the next decade.

Compliance with Home Wise eligibility criteria

To be eligible for the Home Wise grant the applicant should:

- hold a current concession card
- demonstrate they have no financial savings to repair or replace the faulty appliance
- own an existing, faulty appliance
- have had no more than two grants in 10 years.

The applicant holds a current concession card

When the Home Wise scheme started, applicants had to provide a photocopy of their concession card with their application to prove they were eligible. DHS removed this requirement in July 2008 but did not begin verifying applicants' details through the Centrelink system until November 2009. In the intervening period DHS continued to require applicants to provide a concession card number but checked only whether the number provided was in the correct format.

DHS cannot be certain that all grant recipients in these 15 months, during which the number of applications and cost of the scheme grew significantly, were eligible and entitled to the grant.

The applicant proves they have no savings

DHS does not require applicants to prove they have no savings and does not verify information about their savings. This increases the risk that ineligible applicants will receive the grant.

The applicant owns an existing, faulty appliance

Before April 2009, DHS typically provided new appliances without inspecting the existing appliance or trying to repair it.

DHS inspections in late 2008 and early 2009 found a large proportion of applications for appliances that were not faulty, not on the premises, or owned by someone else. DHS then appointed a contractor to inspect appliances and assess whether they should be repaired or replaced. This strengthened the controls.

The inspections have found that up to 20 percent of applicants are ineligible.

The applicant has had no more than two grants in 10 years

DHS has a database that it uses to match names of applicants to verify they have not had more than 2 grants in 10 years. However, under the current name matching arrangements it is possible for different members of a household to successfully apply for a grant if they have moved to a different address. There is the risk, therefore, that households may get more than 2 grants over a 10-year period.

Appliance supply arrangements

DHS chose three retailers in 2007 to supply appliances for the scheme. However, there are issues with the supply arrangement:

- there was no competitive tender process to select the retailers, which is inconsistent with sound procurement practices and may also breach government purchasing policies
- DHS has no documented contracts with the retailers.

DHS negotiates an annual price list with each retailer for appliances and advised that it gets the lowest price possible. We examined the current price lists negotiated between the three retailers and DHS and found that on the whole the prices were lower than the prices available to a normal consumer from these and other retailers. However, there were some anomalies:

- in a small number of instances the retailers' prices were up to \$100 higher per item than publicly advertised prices for the same item
- for some appliances DHS pays different prices, depending on which retailer supplies it. The largest price variation for the same item was around \$200.

DHS needs to make sure it uses its buying power to get value for money as part of its planned procurement process in 2010 for the supply of appliances. DHS plans to conduct a tender for the appliances and services required for the Home Wise scheme during 2010.

While the department currently treats each purchase of an appliance as a separate transaction in the context of government purchasing policies, it can be argued that the selection of only three retailers from whom to source these appliances and the amounts anticipated to be paid to them over the course of the arrangement are relevant when determining whether or not a competitive tender process is required.

Weaknesses in payment controls to appliance suppliers

Once an application has been assessed and approved a repair or replacement is authorised. DHS staff:

- were not matching retailer invoices to the DHS database to confirm that the appliances were approved. This weakness was addressed by DHS from November 2009, following advice on findings arising from this audit
- send letters to applicants that do not specify the brand, size or type of appliance approved.

These practices meant that the retailers may inadvertently or deliberately invoice DHS for appliances that were not ordered or approved and not be detected.

Advice to the minister about Home Wise

Figure 4C outlines the advice to the minister in late 2008 on the results of DHS inspector visits done during October and November 2008 to the homes of a sample of Home Wise applicants to check whether their appliances met the eligibility requirements.

Figure 4C
Results of DHS inspector visits during October and November 2008 to a sample of Home Wise applicants

In October and November 2008 DHS inspectors checked a sample of applicants for eligibility. They found that 46 per cent of the sample were not eligible for these reasons:

- the appliances were not faulty (51 per cent of cases)
- the applicant(s) did not own the appliance (34 per cent of cases)
- the applicant(s) did not have the relevant appliance in the household and claimed they had thrown it away (11 per cent of cases)
- other reasons (4 per cent of cases).

It should be noted that the sample of applications selected for checking was not random and was based on judgements made by DHS about applications which were considered more likely to be ineligible.

Source: Victorian Auditor-General's Office with DHS information.

As a result, the scheme was changed in early April 2009 so that appliances would be inspected first and then repaired if the cost was under \$300.

The strong growth in demand for Home Wise grants is currently delaying assistance to successful applicants because applications are taking longer to assess.

DHS is currently reviewing the Home Wise scheme. The review is examining the drivers for the escalation in expenditure in 2008–09, clarifying the objectives of the Home Wise scheme, and recommending future scheme design, including measures to control expenditure. A report on the review is expected to be provided to the minister by 31 March 2010.

Recommendation

8. DHS needs to address the control weaknesses of the Home Wise scheme as a matter of urgency.

4.6.2 Utility Relief Grant Scheme

The Utility Relief Grant Scheme (URGS) helps eligible concession cardholders who cannot pay a utility bill, LP gas or carted water account because of an unexpected and temporary financial crisis, and who risk disconnection. Customers with no concession card, who are in short-term financial hardship and registered with their utility provider's hardship program may also apply.

Approved applicants can get up to \$500 over six months if the household income has fallen substantially. They may also get up to \$500 for a bill from the past 12 months if utility consumption has risen substantially. Applicants can apply for one grant per utility every two years.

Demand for URGS rose significantly in 2008–09 as shown in Figure 4D.

Figure 4D
Utility Relief Grant Scheme

Year	Number of approved applications	Expenditure (\$mil)
2005–06	9 430	3.3
2006–07	10 154	3.3
2007–08	9 139	2.8
2008–09	14 736	5.4
6 months to 31 Dec 09	N/A	4.3

Source: Victorian Auditor-General's Office, using DHS data.

Verifying eligibility for the URGS mirrored that for the Home Wise scheme. At first applicants had to provide a photocopy of their concession card with their application to establish eligibility. In July 2008, DHS removed this requirement but did not start using Centrelink's electronic verification process until November 2009. This addressed a long-standing gap in the controls over the scheme. In the intervening period, DHS continued to require applicants to provide a concession card number but checked only whether the number provided was in the correct format.

DHS has no assurance that all grant recipients in the 15 months to November 2009 were eligible concession cardholders and entitled to the grant.

There were no other significant weaknesses in URGS controls and no anomalies or errors in the grants examined. One strength of the controls is that DHS pays the utility company directly to reduce the applicant's outstanding balance. DHS staff assessing URGS applications used their discretion sensibly when deciding the amount granted to approved applicants.



5 Reporting on effectiveness of concessions

At a glance

Background

The government objective for the concessions system is to improve essential services affordability and reduce disadvantage in a financially sustainable way.

The audit examined the adequacy of reporting by the Department of Human Services (DHS) on how the concessions system performs against government objectives.

Conclusion

- Public reporting on concessions is not timely. It is also difficult to draw clear conclusions about how effectively concessions are performing against relevant government objectives.

Recommendations

- DHS should include sufficient information and analysis in the annual report on the state concessions system to allow meaningful conclusions about the performance of concessions against government objectives.
- The annual report on the state concessions system should be published within six months of the end of the financial year.

5.1 Introduction

The concessions system has clear objectives. Concessions should help low-income individuals and households access and afford essential services, such as water, energy, housing, health and transport. The aim is to improve the affordability of essential services and reduce disadvantage in a financially sustainable way.

The audit examined how effectively the Department of Human Services (DHS) reports publicly on the performance of the concessions system against government objectives.

5.2 Conclusion

The transparency and accountability of the concessions program can be improved. Public reporting on concessions is not timely and does not show how effectively concessions are performing against government objectives.

DHS's annual report on the concessions system provides some transparency for the system, but it usually appears about 12 months after the end of the financial year. The report includes relevant information but this information is not sufficiently comprehensive.

It is therefore difficult for Parliament and the community to become informed about the concessions system and how it is performing against government objectives.

5.3 Findings

5.3.1 Adequacy of annual report on concessions

DHS publishes an annual report on the concessions and hardship programs. The most recent report for the 2007–08 financial year came out in August 2009.

The report details the government's concessions and hardship programs. It also covers information on other community service obligations that complement concessions, including state subsidised trustee services and government support for emergency relief services such as VicRelief and Foodbank.

The report covers the value and distribution of concessions to cardholders as well as information about the concession card holding population.

It thereby offers a degree of transparency about the nature, value and delivery mechanisms for concessions. However, the information and analysis is not enough for the reader to draw meaningful conclusions about how concessions perform against government objectives. For this the report needs to publish:

- the extent to which eligible members of the community are aware of the different types of concessions
- eligible populations' take-up of concessions

- whether capped concessions match the notional intended value of the concession and whether they are keeping up with price movements
- how efficiently concession services are delivered
- assurance about how effectively the controls guard against the ineligible receiving assistance
- major challenges to the effectiveness and financial sustainability of the concessions system and government responses.

This would offer greater accountability and more meaningful reporting on concessions performance.

Currently, it is not possible to report on take-up rates for utility concessions because of difficulty getting the data. Centrelink reports on the number of individual concession cards issued, but cannot report on the number of households that have cards. Utilities report either households or transactions. This creates a discrepancy between cards and households meaning take-up rates cannot be accurately calculated.

Recommendations

9. DHS should include sufficient information and analysis in the annual report on the state concessions system to allow meaningful conclusions about the performance of concessions against government objectives.
 10. The annual report on the state concessions system should be published within six months of the end of the financial year.
-

Appendix A.

Concessions in operation

The following table provides an overview of concessions in operation, including whether the concession benefits the household or individual, and how each concession is paid to the eligible cardholder.

Figure A1
Concessions in operation—funding, management, eligibility and payment arrangements

Concession	Funding arrangement	Administered by	Delivered by	Concession card eligibility			Paid as	Benefit/discount applied
				PCC	HCC	DVA		
Municipal rates	Direct funding by state government	DHS	Local councils	✓	✗	✓	Reduced bill	50 per cent discount, up to a capped maximum of \$184.30
Stamp duty	Foregone revenue	State Revenue Office	State Revenue Office	✓	✓	✓	Reduced bill	Exemption from stamp duty for cardholders purchasing property up to \$330 000 in value. Sliding scale of partial exemptions for properties with a value of more than \$330 000, but not more than \$440 000
Water and sewerage	Direct funding by state government	DHS	Water authorities	✓	✓	✓	Reduced bill	50 per cent discount, up to a capped maximum of \$216.60
Carted and non-mains water	Direct funding by state government	DHS	DHS	✓	✓	✓	Rebate on expenditure	Annual rebate between \$95 and \$285
Energy—mains electricity	Direct funding by state government	DHS	Electricity retailers	✓	✓	✓	Reduced bill	17.5 per cent reduction on electricity bill expenses incurred from 1 May to 31 October of each year 13 per cent reduction on the off-peak tariff rates on all quarterly electricity bills

Figure A1
Concessions in operation—funding, management, eligibility and payment arrangements – continued

Concession	Funding arrangement	Administered by	Delivered by	Concession card eligibility			Benefits	Paid as	Benefit/discount applied
				PCC	HCC	DVA			
Energy—mains gas	Direct funding by state government	DHS	Gas retailers	✓	✓	✓	Household	Reduced bill	17.5 per cent reduction on gas bill expenses incurred from 1 May to 31 October of each year
Energy—non mains	Direct funding by state government	DHS	DHS	✓	✓	✓	Household	Rebate on expenditure	Annual rebate between \$38 and \$268
Public transport	Direct funding by state government	Department of Transport	Metlink	✓	✓	✓	Individual	Reduced fare	Around 50 per cent of the full fare
Motor vehicle registration	Foregone revenue	VicRoads	VicRoads	✓	✓	✓	Individual	Reduced fee	50 per cent reduction on the registration fee, limited to one vehicle per concession cardholder
TAC insurance charge	Foregone revenue	VicRoads	VicRoads	✓	✗	✓	Individual	Reduced insurance charge	For holders of the Veterans' Affairs Gold Card a 100 per cent reduction applies 50 per cent reduction of the TAC charge component of the registration bill, limited to one vehicle per concession card

Figure A1
Concessions in operation—funding, management, eligibility and payment arrangements – continued

Concession	Funding arrangement	Administered by	Delivered by	Concession card eligibility			Benefits	Paid as	Benefit/discount applied
				PCC	HCC	DVA			
Education maintenance allowance	Direct funding by state government	Department of Education and Early Childhood Development (DEECD)	DEECD and schools	✓	✓	✓	Household/ family	Payment split between direct payment to parent and school	\$221 for primary students and \$443 for secondary students up to their 16th birthday
Education conveyance allowance	Direct funding by state government	DEECD	DEECD	✓	✓	✓	Household/ family	Reimbursement	Reimbursement of actual fare incurred
Kindergarten fee subsidy	Direct funding by state government	DHS	DHS and kindergartens	✓	✓	✗	Household/ family	Reduced fees	Fee subsidy of \$751.20 per year
Primary health: dental	Direct funding by state government	DHS	DHS and Dental Health Services Victoria	✓	✓	✗	Individual and dependents	Full or partial bill reduction	\$23 co-payment is payable at each visit, up to a maximum of \$92
Primary health: community health	Direct funding by state government	DHS	DHS and primary health care providers	✓	✓	✓	Individual and dependents	Full or partial bill reduction	Service provided at no charge or for a very low fee
Ambulance	Direct funding by state government	DHS	Ambulance Victoria	✓	✓	✓	Individual and dependents	Free service	Free ambulance and air ambulance travel in the event of an emergency or on a doctor's recommendation

Source: Victorian Auditor-General's Office from information provided by DHS.

Appendix B.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report was provided to the Department of Human Services with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Submissions and comments received

RESPONSE provided by the Secretary, Department of Human Services



Department of Human Services

Secretary

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Mr D D R Pearson
Auditor-General
Level 24
35 Collins Street
MELBOURNE 3000

Dear Mr Pearson

Thank you for your letter of 1 February 2010 regarding the Victorian Auditor-General's Office (VAGO) audit of the management of concessions by the Department of Human Services and for providing me with a copy of the proposed audit report.

In your letter you invited me to provide formal comments for inclusion in the report before it is tabled in Parliament. I have attached my formal comments on the report to this letter. I have also arranged for a copy of this letter and the attached comments to be emailed to Tony Brown from your office.

I would like to thank you and your staff for conducting this audit, and for the professional way in which it was conducted.

The department has accepted all of the recommendations in the report. One recommendation has already been implemented and work has commenced to implement the remainder. The findings of the audit have helped the department improve the management of concessions and the overall performance of the program.

If you have any questions or would like any further information regarding this matter, please contact Alan Hall, Executive Director, Corporate Services on XXXX XXXX.

Yours sincerely

Gill Callister
Secretary

Attachment



RESPONSE provided by the Secretary, Department of Human Services – continued

DHS Formal Comment on the Proposed Audit Report: Management of concessions by the Department of Human Services, for inclusion in the final VAGO report

The Department of Human Services (DHS) welcomes the audit report and its findings as an opportunity to further improve the management and delivery of the statewide concessions program.

Every recommendation in the report has been accepted.

Significant changes have already been made. Verification checks for applicants for electricity, gas, water and rates concessions were strengthened and implemented successfully from July 2009 to ensure that only eligible applicants received concessions and that eligibility was checked continuously.

Work is already underway to implement the remaining recommendations.

As noted by the Auditor-General, Victoria assists more than 700,000 low income Victorians and provides more than \$1 billion worth of assistance each year through concession programs. DHS directly manages a number of these concession programs in addition to broader policy and monitoring responsibilities addressing affordability and hardship.

DHS notes the findings that its advice to Government has been sound, comprehensive and robust, reflecting and conveying strategic and operational advice.

In relation to specific issues in the report, DHS has the following comments:

- Improvements to the annual reporting of concessions will occur over the coming year. New affordability and performance indicators will be developed, particularly where comprehensive data is not presently collected.
- The Department will review the administration fees paid to external organisations.
- The Department acknowledges the need for an automated payments system and has commenced action to implement this recommendation. DHS will also consider the results of the compliance audits for concession providers, which commence in 2010, to inform the development of this proposal.
- The department will release the Concessions Annual Report in a more timely manner.

DHS acknowledges the significant community support and demand for the Home Wise program and had already moved in April 2009 to strengthen the program procedures before the audit had commenced. Significant improvements have already been made to financial controls for the Home Wise program. To ensure the strictest possible protocols apply, DHS:

- Electronically verifies the eligibility of all applicants with Centrelink.
- Inspects the faulty appliances of all Home Wise applicants to determine whether they can be repaired or need to be replaced, and to confirm eligibility for assistance.
- Matches all retailer and repairer invoices to the departmental database to ensure that appliances and repairs are properly authorised.
- Inspects replacement appliances and repairs following installation or repair to provide quality assurance for repairs and to validate retailer invoices.

Further, DHS will conduct a public tender for the appliances and services required for the Home Wise program in 2010, in order to ensure the best possible value-for-money purchasing arrangements are in place.

The Department appreciates the contribution this audit will make to strengthening the delivery of the Statewide Concessions Program.

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Reports tabled during 2009–10

Report title	Date tabled
Local Government: Results of the 2008–09 Audits (2009–10:1)	November 2009
Public Hospitals: Results of the 2008–09 Audits (2009–10:2)	November 2009
Towards a 'smart grid'— <i>the roll-out of Advanced Metering Infrastructure</i> (2009–10:3)	November 2009
Responding to Mental Health Crises in the Community (2009–10:4)	November 2009
Management of the Community Support Fund (2009–10:5)	November 2009
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009 (2009–10:6)	November 2009
Water Entities: Results of the 2008–09 Audits (2009–10:7)	November 2009
Maintaining the Integrity and Confidentiality of Personal Information (2009–10:8)	November 2009
Vehicle Fleet Management (2009–10:9)	November 2009
Managing Offenders on Community Corrections Orders (2009–10:10)	November 2009
Portfolio Departments and Associated Entities: Results of the 2008–09 Audits (2009–10:11)	December 2009
Making Public Transport More Accessible for People Who Face Mobility Challenges (2009–10:12)	December 2009
Use of Development Contributions by Local Government (2009–10:13)	December 2009
The Effectiveness of Student Wellbeing Programs and Services (2009–10:14)	February 2010
Tendering and Contracting in Local Government (2009–10:15)	February 2010

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