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Performance Audit

Administration of the Early Years Quality Fund

Department of Education and Training

Department of Finance

Department of the Prime Minister and Cabinet

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Canberra ACT
17 February 2015

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Education and Training, the Department of Finance and the Department of the Prime Minister and Cabinet titled *Administration of the Early Years Quality Fund*. The audit was conducted in accordance with the authority contained in the *Auditor-General Act 1997*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely



Ian McPhee
Auditor-General

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

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For further information contact:

**The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601**

Phone: (02) 6203 7505

Fax: (02) 6203 7519

Email: publications@anao.gov.au

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Audit Team

Greg Watson
Megan Beven
Renee Hall
Evan Moraitis
Jess Scully
Heather Rae
Edel Kairouz

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Abbreviations

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|------------------------|--|
| ANAO | Australian National Audit Office |
| CCB | Child Care Benefit |
| CCMS | Child Care Management System |
| CCWS | Child Care Workforce Strategy |
| CGGs | Commonwealth Grant Guidelines. The CGGs were superseded by the Commonwealth Grant Rules and Guidelines on 1 July 2014. |
| DEEWR | The (former) Department of Education, Employment and Workplace Relations |
| Education | The Department of Education (formerly the Department of Education, Employment and Workplace Relations) |
| Education and Training | The Department of Education and Training (formerly the Department of Education) |
| EHGC | Employee Hours and Grants Calculator |
| EYQF | Early Years Quality Fund |
| Finance | Department of Finance (formerly the Department of Finance and Deregulation) |
| FMA Act | <i>Financial Management and Accountability Act 1997</i> . This Act was replaced by the <i>Public Governance, Performance and Accountability Act 2013</i> . |
| LDC | Long Day Care |
| LDCPDP | Long Day Care Professional Development Program |
| NQF | National Quality Framework |

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| PM&C | Department of the Prime Minister and Cabinet |
| PMO | Prime Minister's Office |
| QIP | Quality Improvement Plan |
| Treasury | Department of the Treasury |
| WDP | Workforce Development Plan |

Glossary

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| Advisory board | A board comprising employer and employee representatives appointed by the (then) Prime Minister to provide advice on the operation and implementation of the EYQF. |
| Big Steps in Child care Campaign | The Big Steps in Child Care campaign (Big Steps) was an initiative of a union representing child care workers, United Voice. Launched in August 2008 the campaign sought to transform the child care profession through increased wages, better conditions and greater respect in the general community. |
| Caretaker Period | During the period preceding an election, the government assumes a caretaker role which begins at the time the House of Representatives is dissolved and continues until the new government is appointed. Throughout this period, the ordinary business of government is expected to continue, however, certain caretaker conventions operate to limit significant decisions, appointments or commitments that a new government would be expected to meet. The conventions are flexible rules that have evolved in response to circumstance, which are generally agreed by all, but may not be codified in precise terms. |
| Family Day Care | Family Day Care is a network of educators who provide flexible care and developmental activities in their own homes for other people's children. |
| First-in First-Served | The first-in first-served method was a demand-driven approach to allocating EYQF grants under which applicants meeting the eligibility criteria would receive funding until all funding was allocated. |

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| Long Day Care | A child care service which provides all day or part time care at a child care centre for children aged 0 to 5 years. Some centres also provide preschool and kindergarten programs and care for school children before and after school and during school holidays, where state and territory government regulations allow this. The service may operate from stand alone or shared premises, including those on school grounds. |
| National Quality Framework (NQF) | A framework agreed by the Council of Australian Governments (COAG) to facilitate a consistent national approach to the regulation of child care providers. For long day care centres, compliance with the NQF means that 50 per cent of staff must have or be working towards a diploma qualification or higher. The remaining 50 per cent must have or be working towards a Certificate III qualification and depending on size, the service must be attended by, or have access to an early childhood teacher who has completed 50 per cent of the degree. |
| Special Account | A mechanism used to record amounts in the Consolidated Revenue Fund (CRF) that are appropriated for specified purposes. Each Special Account represents a notional division within the CRF. Accordingly, Special Accounts enable money to be earmarked for the purposes for which each Account is established. The EYQF was established as a Special Account under Section 21(1) of the FMA Act. Special Accounts are used for a variety of purposes. This includes delivering some government regulatory and business activities, accounting for trust money, segregating money for activities that the Commonwealth funds jointly with other parties, and setting aside funds for medium to long-term government programs. |
| Workforce Compact | An arrangement which provided employers with access to Commonwealth funds if they agreed to pass on the funds as wage increases to employees. |

Summary and Recommendations

Summary

Introduction

1. Quality early childhood education and care offers a wide range of benefits to Australian families. The benefits accruing from higher quality care include assisting children in establishing foundations for learning and preparation for subsequent schooling, and assisting parents who wish to remain in or re-enter the workforce. Many parents choose to send their children to formal care provided by a licenced early childhood education and care service—most commonly long day care, or family day care. There are over 6000 long day child care centres nationally run by small and large for-profit and not-for-profit organisations.

2. Significant reforms have occurred since 2009 in the Australian early childhood education and care sector following agreement by the Council of Australian Governments (COAG) in that year to the National Partnership on the National Quality Agenda for Early Childhood Education and Care. A key element of this agreement was the development of the National Quality Framework (NQF) which replaced the various licensing and quality assurance processes that had previously existed in each state and territory. The NQF also introduced minimum staff to child ratios and worker qualification requirements. In agreeing to the reforms and in establishing a shared vision¹ for the sector, COAG recognised that there were significant workforce supply, recruitment and retention issues and that in order to achieve its vision, steps would need to be taken to strengthen the early childhood education and care workforce.

3. Reflecting on the potential impact of the reforms associated with the national quality agenda, the 2011 Productivity Commission report into the Early Childhood Development Workforce noted that the reforms would significantly increase the demand for workers² and that supply was likely to respond slowly. The Commission suggested that proposed timeframes for reform, which expected full implementation by 1 January 2014, were optimistic. Further, the

1 COAG's vision that by 2020 all children have the best start to life to create a better future for themselves and for the nation is set out in *Investing in the Early Years—A National Early Childhood Development Strategy* July 2009.

2 The Productivity Commission estimated that about 15 000 more workers were likely to be required than would otherwise be the case, and the average level of workers' qualifications would need to increase. Productivity Commission, *Early Childhood Development Workforce*, 2011, p.xxii.

Commission observed that the reform program was likely to be expensive for both governments and parents, as increased staff numbers, and the higher wages—anticipated in response to the increase in demand—would drive up service costs. At the time the then government was considering its reform directions, the union representing some elements of the workforce, United Voice, was also advocating for a range of improvements in pay and conditions in the sector, and approached the government with a proposal seeking \$1.4 billion for a workforce compact³, similar to that provided for the aged care⁴ sector.

4. To progress reforms and respond to the broader wage pressures then evident, the Australian Government committed \$300 million⁵ (on 19 March 2013) to establish the Early Years Quality Fund (EYQF) with the intended purpose of providing grants to long day care providers in order to supplement wage increases against an agreed wage schedule for child care workers for a period of two years.⁶ The grants were to be made available to providers on a first-in first-served basis and an advisory board comprising individuals⁷ from the sector was established to provide advice during the implementation and design phases of the fund.⁸

Parliamentary interest and consideration

5. The then government also determined that it would use a Special Account to establish the fund and on 30 May 2013, the Early Years Quality Fund Special Account Bill 2013 (the Bill) was introduced into Parliament. Reflecting the level of public interest in the early childhood education and care sector, the Bill attracted significant stakeholder attention. A large number of

3 The workforce compact was envisaged as an arrangement which provided employers with access to Commonwealth funds if they agreed to pass on the funds as wage increases to employees.

4 In the 2012–13 Budget, the then government provided \$1.2 billion over five years to address workforce pressures in the aged care sector.

5 A total of \$314 million was committed over five years comprising: \$300 million over two years for the EYQF; \$8 million over three years for the Department of Education, Employment and Workplace Relations to administer the Fund, and the establishment of the Early Years Quality Fund Advisory Board and \$6 million over four years to establish a Pay Equity Unit in the Fair Work Commission.

6 Wage increases would be in accordance with a wage schedule and would equate to \$3 per hour for Certificate III qualified educators, with proportionally adjusted wage increases for other child care workers and diploma and degree qualified educators. United Voice had proposed that the government provide \$1.4 billion for a workforce compact in order to provide wage increases of \$5 per hour.

7 Individuals on the board included representatives from employee and employer groups and peak bodies.

8 The advisory board's role as set out in its Terms of Reference included providing advice on: eligibility criteria; equitable funding distribution; application and assessment processes; conditionality of funding; monitoring and reporting to ensure transparency and compliance; and engagement and communication with the early childhood education and care sector.

submissions to the associated inquiries focused on the wage disparity that was expected to arise, as only a proportion of the early childhood education and care sector would be eligible to receive funding. Concerns were raised with respect to the amount of funds available—\$300 million over two years was considered insufficient by stakeholders to provide wage increases for all long day care educators and questions were raised about the impact on wages and resourcing when funding ceased. The proposed first-in first-served approach to awarding grants also drew concern from small providers and sector representative bodies who considered that the approach risked locking out smaller providers from funding as they did not have the resources of larger providers to quickly submit applications to the fund. In his second reading speech to the Bill the then Minister⁹ acknowledged that the funding would not provide an increase for all child care workers and noted there was more to be done within the sector to attract and retain qualified, respected educators.

6. The *Early Years Quality Fund Special Account Act 2013* came into effect on 1 July 2013 with the object of improving quality outcomes for children in early childhood education and care services, by enhancing professionalism in the sector, including through improved attraction and retention of a skilled and professional workforce. The Special Account's use was restricted to remuneration and other employment related costs and expenses. The account was credited with \$135 million on commencement (1 July 2013), with the remaining \$165 million to be credited on 1 July 2014. Funding was to be made available to eligible employers in the form of a grant.

Commonwealth grants framework

7. The provision of grants is a means commonly used by the Australian Government to collaborate with third parties in the delivery of services in support of policy objectives. At the time of the design and implementation of the EYQF, the government's policy requirements and expectations in relation to grants administration were set out in the Commonwealth Grants Guidelines (CGGs)¹⁰, which aimed to promote fair and equitable access to grant

9 Minister for School Education, Early Childhood and Youth, The Hon Peter Garrett MP, Second Reading speech; the Early Years Special Account Bill 2013, 25 June 2013.

10 Department of Finance and Deregulation, *Commonwealth Grant Guidelines – Policies and Principles for Grants Administration*, Financial Management Guidance No. 3, Canberra, June 2013 (2nd Ed).

opportunities.¹¹ The CGGs included several mandatory requirements in relation to decision making by Ministers and reporting, as well as a range of better practice principles to guide government entities in their approach to grants administration. Further, since 2002, the ANAO has also published several editions of its Better Practice Guide on Grants Administration to assist entities in their administration of grants.¹²

EYQF grants

8. In agreeing to the EYQF, the then government sought to achieve outcomes quickly, setting a date of 1 July 2013 for the disbursement of the grants. This provided a little over three months for the then Department of Education, Employment and Workplace Relations (DEEWR, the department) to put in place all the necessary arrangements to implement the program, including conducting the grants assessment process. The government also adopted (as noted in paragraph 4) a demand-driven, first-in first-served approach for the allocation of grants as it considered this would be more likely to meet its timeframes. Under the approach, eligible applications would be processed in the order received and accepted for funding until the funding cap of \$300 million was reached. The CGGs allowed for a number of different approaches to awarding grants including through demand-driven processes under which applications that satisfy stated eligibility criteria receive funding, up to the limit of available appropriations.

9. The government had initially decided that the best way to promote equitable access to the EYQF was to require grant applications at the individual service level rather than at the provider level, in recognition of the fact that there was wide divergence in provider types, ranging from single operators or small providers through to large multi-site service providers. Following a recommendation from the EYQF advisory board, the Minister decided that applications should be on a provider basis and that each service included in an application would be assessed individually. The allocation of

11 The audit has referenced the grants framework that was in place at the time that the program operated (in particular, the *Financial Management and Accountability Act 1997* (FMA Act), Financial Management and Accountability Regulations 1997 (FMA Regulations) and the CGGs). The framework changed after the EYQF closed, with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) taking effect from 1 July 2014 and the issuing of the Commonwealth Grants Rules and Guidelines (CGRGs) to replace the CGGs.

12 The first version of the ANAO *Better Practice Guide on Grants Administration* was published in 1994, and was updated in 1997, 2002, 2010 and 2013.

funding was also influenced by provider size, with small providers (1-15 services) allocated a pool of \$150 million and large providers (16+ services) allocated the remaining \$150 million, also following advice from the advisory board.

10. Access to the EYQF was through an email application process using forms provided on the department's website. To apply for funding, applicants were required to download and complete application forms and lodge them with the department by email in accordance with the EYQF guidelines. Applications opened on Tuesday 23 July 2013. The department registered a total of 1173 submissions from early childhood education and care providers, with a total of 453 applications being approved for funding from the EYQF.¹³ To receive the proposed funding, successful providers then needed to take steps to meet the conditions in the offer including putting in place or varying enterprise agreements to reflect the agreed EYQF wage schedule. In late August 2013, 44 providers had met the conditions of offer, and funding agreements were progressed for 16 of these providers (15 small and 1 large) prior to the 2013 Federal election. These 16 agreements provided for the payment of grants totalling \$137 million.

Review of the Early Years Quality Fund

11. Following the 2013 Federal election, the new government reviewed the EYQF and decided to replace it with a new professional development program for child care educators, using uncommitted funds from the EYQF.¹⁴ The new program is directed towards assisting educators in long day care services to meet the qualification requirements under the National Quality Framework (NQF) and improving practice to ensure quality outcomes for children.

12. In light of these developments, funding agreements for the 16 providers were renegotiated with funding levels payable from the EYQF reduced. As at 30 June 2014, ten months after the original funding agreements were signed, a total of \$62.5 million had been paid to the 16 providers. Of the \$62.5 million, \$51.3 million was for wages, \$4.9 million for on-costs and \$6.3 million for

13 Applications could be received in multiple email submissions.

14 PricewaterhouseCoopers Australia (PwC) was commissioned by the Department of Education to conduct a review of the Early Years Quality Fund. The final report of the review, *Ministerial review of the Early Years Quality Fund* is dated 12 November 2013 and was released to the public on 10 December 2013.

professional development. Conditional funding offers for the remaining applications (made in August 2013) were revoked on 11 October 2013.

Request for review by the Auditor-General

13. The government's review raised a number of concerns about the manner in which the EYQF had been implemented. Following the release of the review on 10 December 2013, Mr Alex Hawke MP wrote in December 2013 to the Auditor-General requesting that an audit of the EYQF be considered. The Auditor-General agreed that in light of the matters that had been raised, a performance audit would be conducted. The audit commenced in March 2014.

Audit objective, criteria and scope

14. The audit objective was to assess the effectiveness of the establishment, implementation and operation of the EYQF against the requirements of the *Early Years Quality Fund Special Account Act 2013* and the Commonwealth grants administration framework.

15. To conclude against the audit objective, the high level criteria included whether the program planning and implementation complied with the legal framework, appropriately considered risks and was consistent with the EYQF policy intent, and the grant selection processes were undertaken in an equitable and transparent way consistent with relevant legislation and the Commonwealth Grant Guidelines.

16. The EYQF was implemented by the Department of Education, Employment and Workplace Relations (DEEWR) and, following the 2013 Federal election, the Department of Education. For ease of reading, this report refers to DEEWR, unless otherwise noted. Under the Administrative Arrangements Order promulgated on 23 December 2014, the Department of Education became the Department of Education and Training, and early childhood programs were transferred to the Department of Social Services (DSS).¹⁵ The Department of the Prime Minister and Cabinet (PM&C) and the Department of Finance were involved in the development of the EYQF and were also included in the audit.

15 As the EYQF had been terminated in 2013, DSS did not have any role in its implementation.

Overall conclusion

17. The Early Years Quality Fund (EYQF) was created to assist in the attraction and retention of skilled and professional child care educators. In particular, the EYQF was intended to allow for increased wage rates for child care workers without these costs flowing on to families. The level of funding available, which was estimated to only cover around 30 per cent of all long day care workers, meant that there would be significant competition for available grants and the program would most likely be oversubscribed. In the event, the \$300 million funding cap was reached less than 13 hours after the application process commenced.

18. Successful implementation of policy initiatives requires early, informed and systematic consideration of implementation issues. The design of the EYQF policy contained inherent risks and it was foreseeable that these risks—particularly the funding constraints, the first-in first-served approach and the short timeframe—would affect access to the program and its ultimate success. While decisions on policy are a matter for government, departments are expected to provide frank, comprehensive and timely advice¹⁶ to Ministers on both policy design and implementation risks as part of the policy development process. This role was made somewhat more challenging for this program because many of the key elements of the EYQF policy were developed by advisers in the offices of the Prime Minister and Finance Minister in negotiation with the key stakeholder representing child care workers. The elements of the program were then settled through correspondence by key Ministers, rather than through the more conventional Cabinet processes. Advice was given to government at various stages in the design of the policy measure from several different departments. However, the development of the measure had some momentum and the advice provided by departments gained little traction. Nevertheless, there were gaps in departmental advice on a number of significant matters at different times. These included the inherent risk in the use of a demand-driven grants application process and, at later stages, the accuracy of the proposed wage schedule and the potential impact on smaller child care providers of several of the advisory board recommendations.

16 The APS Code of Conduct values include responsiveness through providing frank, honest, comprehensive, accurate and timely advice to the government and in implementing the government's policies and programs. <<http://www.apsc.gov.au/aps-employment-policy-and-advice/aps-values-and-code-of-conduct/aps-values-and-code-of-conduct-in-practice>> [Accessed on 31 October 2014].

19. Following the then government's decision to adopt the EYQF policy, DEEWR became responsible for the implementation of the program. The department was experienced in program implementation and promptly established arrangements to manage the grant process to meet the short timeframe set by the government for the commencement of the program. To some extent the development of key policy elements prior to any significant involvement of the department presented challenges to successful implementation, although in the event, key risks evident in the design of the policy were compounded by inadequacies in the department's subsequent administration of the EYQF.

20. Facilitating equitable access to the program by applicants was a significant risk to be managed throughout the program's implementation, given the funds allocated by government were substantially less than required to cover the whole long day care sector. For the estimated 6000 long day care providers that were potential program applicants, accessibility to EYQF grants was also affected by limited consultation and public information about the EYQF grant process. While communication with the sector was initially intended to be managed by the EYQF advisory board, in practice the board's ability to inform the sector was constrained by delays in its establishment. The board also resolved to amend its charter to emphasise its advisory role rather than its representation role. In this context it considered that it would have a limited role in communicating with the sector, although it agreed to publish post meeting communiques to provide a broad description of the decisions made at board meetings. The department's own advice to the sector was very limited. Combined with the short timeframe set by the then government—two working days between the guidelines being released and the program applications opening—communication was not conducive to a first-in first-served environment, where applicants needed to be poised to make business decisions and act quickly when applications opened.

21. The department's system for processing applications needed particular attention to preserve equity of access in the management of the first-in first-served process. The email based system adopted by the department was not fit for purpose and did not fully maintain the first-in order of applications. Complexity and inconsistency within the grant guidelines also presented difficulties; applicants did not always follow the instructions in the guidelines

and did not always submit complete applications. After identifying problems with the applications, the department varied the assessment process at several points while it was underway and also repeated a large number of assessments.¹⁷

22. Overall, while the department set about to achieve the timeframes expected by the then government, it did not demonstrate a disciplined approach to implementation that satisfied the requirements of the program and the Commonwealth Grant Guidelines (CGGs). As a result, EYQF processes and procedures were not as well developed as they should have been and there were risks that could have been better managed in the registration, application and approval processes, in the development of funding agreements, and in the management of stakeholder expectations. Further, significant decisions—made during the grant assessment process—were not fully considered or documented, which reduced transparency in relation to key assessment and funding decisions.

23. At the completion of the grant assessment process, 453 grants (contained within approximately 580 submissions) were approved covering approximately 1309 child care services, and almost 24 000 employees. This represented around 30 per cent of long day care staff and 20 per cent of services. There were approximately 590 submissions not approved for grant funding. Noting that 554 submissions were received from small providers after the funding cap was reached. By close of business 6 September 2013, the day prior to the Federal election, funding agreements had been sent to 1 large provider, Goodstart Early Learning (for \$132 million), and 15 small providers (for a total of \$5 million) covering 11 710 employees. Subsequently, program changes have resulted in the 16 agreements being either varied or terminated. As at 30 June 2014, \$62.5 million had been paid under EYQF.

24. This audit report draws attention to the risks departments face in implementing grant programs, particularly in circumstances where requirements are largely determined by Ministers and their offices, and short timeframes are provided in which to develop and implement arrangements. Nevertheless, departments still have an important role in clearly drawing the attention of Ministers to implementation risks so as to reduce the likelihood of downstream problems affecting service delivery or equity of access to

17 Although the variations took into account the original basis for the criteria, not all changes were documented, some were not uniformly applied and records with respect to the variations were not adequately maintained.

programs. Such advice is particularly important in programs like EYQF where funding was capped and risks of oversubscription were recognised. Key lessons arising from the implementation of the EYQF program include the importance of providing: frank, comprehensive and timely advice to Ministers in relation to implementation risks and opportunities for mitigating these risks where possible; keeping stakeholders informed of developments, including when programs reach full capacity; and ensuring that in demand-driven grant programs, the program guidelines are followed to ensure, as far as possible, equity of access by applicants to available funds. A key step to achieving success in implementing policy on time, budget and to government's expectations is to give consideration to implementation as a fundamental part of all stages of policy development.¹⁸

25. The audit has made one recommendation, observing that the EYQF program has been terminated and replaced with an alternative professional development program for child care educators. That said, the matters discussed in paragraph 24, together with the recommendation, are of relevance to other Commonwealth entities and are intended to inform the design and implementation of future programs.

Key findings by chapter

Chapter 2 – Development of the Early Years Quality Fund

26. Providing well founded policy advice is a core role for the Australian Public Service. A policy initiative is more likely to achieve its intended outcomes when the question of how the policy is to be implemented has been an integral part of the policy design. Where implementation considerations do not receive sufficient and early attention, experience shows that problems are more likely to arise during subsequent delivery of the policy.¹⁹ While the EYQF was a product of negotiations with the union representing child care workers, it was preceded by broader considerations around the potential impacts of the National Quality Framework (NQF) reforms. These earlier considerations were informed by the initial development of a child care strategy by DEEWR, but early in 2013 this strategy was overtaken by policy being developed by Ministers' advisers in the Finance, Treasurer's and Prime Minister's Offices

18 The Department of Prime Minister and Cabinet, and the Australian National Audit Office, October 2014, *Successful Implementation of Policy Initiatives Better Practice Guide*, p.i.

19 Ibid. p. 13.

and culminated in the child care workforce strategy. The strategy was significant in that it identified the key policy parameters of the EYQF, including the first-in first-served approach to grants, and the need for providers to comply with the NQF and have an enterprise agreement in place.

27. Advice on the policy under negotiation was sought from central agencies (the Departments of the Prime Minister and Cabinet, Treasury and Finance) as it developed. Early in the policy development stage, central agencies provided joint advice on the policy to their respective Ministers highlighting key issues—including cost, scope, eligibility and timing—for consideration prior to any decisions being taken. This advice proposed alternative longer term options which aligned more closely with the existing Australian Government support to the sector and which were considered less likely to have a distortionary effect. The briefing was comprehensive in many respects and recommended among other things, that a smaller wage increase be provided to all long day care workers, rather than a large increase to a relatively small sub-set of workers. Although the briefing did not include any advice or caution in relation to the use of a first-in first-served approach, the briefing commented on the implications of restricting the EYQF to a small number of providers.

28. As the department that would have responsibility for implementation of the EYQF, DEEWR's approach to the provision of advice was variable. After providing initial advice to the then government on options to progress reforms in the child care sector in 2012 and early in 2013, the department's role was largely limited to contributing to advice being prepared by central agencies until being requested by the Prime Minister's Office to prepare correspondence for the Minister for School Education, Early Childhood and Youth, seeking policy authority from the Prime Minister for the EYQF. In addition to preparing the draft correspondence, a department would generally be expected to advise its Minister, including in respect of any significant risks to the policy design or implementation, and opportunities to mitigate those risks in the event the government determined to proceed with the proposal. Although the department held concerns around some aspects of the proposal at this time, including the first-in first-served approach to grants, the department elected not to provide the Minister with any accompanying advice on the EYQF proposal as by this stage, the department held the view that the government had largely determined the approach it intended to take.

Chapter 3 – Implementation of the Early Years Quality Fund Program

29. Successful program implementation relies on the identification and management of key risks. Facilitating equitable access to the EYQF by applicants was one significant risk that needed to be managed throughout the program's implementation. For the estimated 6000 long day care providers that were potential program applicants, accessibility to EYQF grants was reduced by limited consultation and public information about the EYQF grant process. Communication with the sector was initially intended to be managed by the EYQF advisory board. However, the board's ability to inform the sector was constrained by delays in the establishment of the board and consequent delays in the meeting schedule. At its first meeting in June 2013, the board also resolved to amend its charter to emphasise its advisory role rather than its representation role. In this context it considered that it would have a limited role in communicating with the sector, although it agreed to publish post meeting communiques to provide a broad description of the decisions made at board meetings. The department's own advice to the sector was very limited. The department was aware that the lack of consultation was a concern for some stakeholders and it should have put in place actions to remedy the situation. The communication approach, combined with the complexity of the guidelines and the short timeframe set by the then government (two working days between the guidelines being released and the program applications opening), was not conducive to a first-in first-served environment, where applicants needed to be poised to make business decisions and act quickly when applications opened.

30. Significant risks to program accessibility also arose in the development of the program guidelines and in particular, errors in the EYQF wage schedule. These errors included the omission of a number of employee classifications set out in the award, which affected the amount of grant funding allocated to some applications. As a result, the department could not confirm the accuracy of the requested, and subsequently approved, funding amounts. Further, although the department was aware of stakeholder concerns with respect to program access for smaller providers (reported during the Parliamentary inquiries), it did not draw to the Minister's attention the disparity created by the advisory board's recommendation to split funding equally into two pools for large and small providers. In effect, this decision meant that the smaller providers, which represented 81 per cent of services and 77 per cent of child care places, would have access to only 50 per cent of the funding.

Chapter 4 – Grant Selection Process

31. EYQF grants were to be allocated on a demand-driven, first-in first-served basis. To support equitable access to the EYQF, the department needed to adopt an approach which accurately captured the receipt time of each application and allowed for the efficient processing of applications. The system needed to be designed to manage a large number of potential applications in a short period of time. Potentially, up to 6000 Child Care Benefit approved long day care services could have applied, although ultimately 1173 submissions were received. Following consideration of several options, the department chose to proceed with an email based system, mainly due to timing.

32. It was foreseeable that an email system might result in technical problems. During the application process there were differences between the time recorded at the department's email gateway and the time of receipt of applications in the EYQF inbox. There were 64 applications delayed at the gateway, with the most significant time difference between an email being received at the gateway and released to the EYQF inbox being nearly two hours, affecting the placement of that application on the time receipt list by 238 places. Other complexities also arose, including the processing of applications sent in more than one email due to email size limits and applicants making amendments to applications and resubmitting either full or part applications (11 resubmitted applications were approved even though they were submitted after other applications had been excluded due to the funding cap being reached) within the time allowed. As a consequence, this affected the delivery of EYQF in accordance with the guidelines to the extent that a number of applications were not processed on a first-in first-served basis.

33. The department's approach to assessing grants was not uniformly followed or documented. The CGGs in place at the time required that entity staff apply sound processes and conduct granting activities in a manner that provides for the equitable treatment of all applicants. In the course of undertaking the assessments, DEEWR waived elements of the eligibility criteria. Not all of these amendments to the grant criteria were documented and applicants were not advised of the changes. Additionally, assessors did not consistently apply the revised criteria. While there may be instances where

it is necessary to waive or amend criteria during a grant process²⁰, in the context of a program with a high risk of over-subscription, greater emphasis should have been placed on adhering to the grants criteria set out in the published guidelines and ensuring that the assessment process was clear, appropriately followed and documented.

34. The pressure on the department to process a large number of applications over a short time period required complete and accurate records to be kept. Assessment records for more than half of the services assessed within the EYQF's \$300 million funding cap were not kept. Other assessment records were inaccurate, inconsistent and overwritten to the extent that no record of the initial assessment in its entirety has been maintained by the department.

Chapter 5 – Finalisation of the Funding Process

35. Successful applicants were advised promptly about the outcome of the EYQF after the funding decisions were made. However, the advice to the majority of unsuccessful applicants and those that were not assessed due to the funding cap being reached, was delayed, as the then Minister's office had requested that this information not be released. Some unsuccessful and all non-assessed applicants waited upwards of 11 weeks to be advised in writing of the final outcome of the assessment process. Other unsuccessful applicants received letters of advice from the department detailing reasons for the decision around two weeks after the funding decision was made. However, the advice in the letters regarding applications assessed as non-compliant unreasonably raised applicants expectations to the extent these applicants were inappropriately informed to re-apply for funding when none was actually available. Re-submitted applications were received from 15 applicants who acted on this advice.

36. Following the grant assessments, 453 applications were deemed to have been eligible and were offered funding agreements subject to the applicants meeting certain conditions. Ultimately, only 16 funding agreements were finalised before the program was terminated. The finalisation of these agreements occurred one day before the 2013 Federal election during the

20 The CGGs require that departments should seek Ministerial or other appropriate authority before invoking provisions for waiving or amending eligibility and assessment criteria and keep appropriate records. Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Second Edition, Financial Management Guidance No.3 June 2013, p. 62.

caretaker period and included one with the largest provider, Goodstart Early Learning which accounted for \$132 million. The department's approach to selecting the funding agreements to be finalised was not recorded but it subsequently advised the ANAO that it focused on finalising these 16 agreements as they were the most advanced at that point. In finalising the agreements the Minister, consistent with the caretaker conventions, corresponded with the relevant Opposition spokesperson²¹, prior to the agreements being finalised. No response was received and the caretaker Minister directed the department to proceed with issuing the funding agreements requesting the inclusion of termination clauses.

Summary of entity responses

37. The proposed audit report was provided to the (then) Department of Education²² and extracts were provided to the Department of the Prime Minister and Cabinet (PM&C), the Department of Finance, United Voice, the Chair of the advisory board and Goodstart Early Learning. The Department of Education and Training requested and received approval from the ANAO to provide a copy of the draft report to the Department of Social Services as part of the transfer of responsibility for child care programs under the Administrative Arrangements Order promulgated on 23 December 2014.

38. Formal responses were received from the Department of Education and Training, and PM&C. Feedback was also received from the Department of Finance, United Voice, Goodstart Early Learning and the Chair of the advisory board. Summary responses to the audit (where provided) are reproduced below and formal responses are included at Appendix 1.

21 During the caretaker period, the business of government continues and ordinary matters of administration continue. Governments generally avoid making major policy decisions that are likely to commit an incoming government. However caretaker conventions provide for caretaker Ministers to consult with the relevant Opposition spokesperson regarding particular commitments. Department of the Prime Minister and Cabinet, *Guidance on Caretaker Conventions* available at <http://www.dpmc.gov.au/guidelines/docs/caretaker_conventions.pdf> [accessed on 4 December 2014].

22 Under the Administrative Arrangements Order promulgated on 23 December 2014, the Department of Education became the Department of Education and Training.

Department of Education and Training

39. The Department of Education and Training is strongly committed to assisting the early childhood education and care sector attract and retain a skilled and professional workforce.

40. As observed by the ANAO, the EYQF program was terminated in December 2013 and replaced with an alternative professional development programme for child care educators in the long day care sector. At the time of responding, 5 038 long day care services were offered funding under that programme to assist educators up skill qualifications and access professional development activities to assist in meeting the qualifications requirements of the National Quality Framework.

41. The ANAO acknowledges in its report DEEWR's experience in program implementation and the prompt establishment of arrangements to manage the grant process, further noting the challenges imposed by key elements of the policy being made external to the department and the exceptionally tight implementation timeframes set by government.

42. The audit has identified several areas throughout the implementation process that could have benefitted from further development. The Department is committed to continuous improvement and will incorporate key lessons from these findings to inform the design and implementation of future programmes.

Department of the Prime Minister and Cabinet

43. The Department of the Prime Minister and Cabinet (PM&C) considers that the audit report provides a balanced account of the Department's involvement in the EYQF.

44. PM&C notes the audit report's conclusions and agrees that while decisions on policy are a matter for government, departments should provide frank, comprehensive and timely advice to Ministers. Further, good Cabinet processes are essential to ensure strategic and coordinated policy solutions to Australia's national challenges, and to support the implementation of the Government's priorities.

Recommendation

The EYQF program has been terminated and replaced with an alternative professional development program for child care educators. That said, the key lessons arising from implementing the EYQF—including the importance of departments providing frank, comprehensive and timely advice to Ministers in relation to implementation risks and opportunities to mitigate these risks where possible—together with the recommendation below, are relevant to other Commonwealth entities and are intended to inform the design and implementation of future programs.

Recommendation No.1 To enhance the equity, transparency and accountability of future grant programs, the ANAO recommends that the Department of Education and Training:

Paragraph 4.59

- (a) reinforces the obligation to manage all aspects of the grant process in accordance with the approved program guidelines and the Commonwealth Grants Rules and Guidelines;
- (b) when conducting granting activities, adopts eligibility criteria which reflect the core objective of the granting activity and are capable of appropriate scrutiny and objective validation;
- (c) adheres to documented eligibility criteria in line with program guidelines and closely considers the impacts of any proposed changes; any changes adopted should be documented and approved in a manner consistent with the Commonwealth Grants Rules and Guidelines and revisions communicated to applicants and potential applicants; and
- (d) maintains clear and complete records of all decisions and assessments relating to applications, including revisions to criteria.

Department of Education and Training Response: *Agreed*

Audit Findings

1. Introduction

This chapter provides background information on the Early Years Quality Fund. It also outlines the audit approach including its objective, criteria and methodology.

Background

1.1 Many Australian parents choose to send their children to formal care provided by a licenced early childhood education and care service—most commonly long day care, or family day care. There are recognised benefits which accrue from higher quality child care including assistance to children in establishing foundations for learning and preparation for subsequent schooling, and assistance to parents who wish to remain in or re-enter the workforce. However, the cost of quality child care can affect parental decisions around workforce participation and the Australian Government Assistant Minister for Education has observed that ‘affordable child care is considered the biggest barrier to workforce participation for women, which in turn impacts on everything from the household budget to the national economy.’²³

1.2 The long day care sector, which cares for more than 500 000 children each year is diverse, comprised of large and small profit and not-for-profit organisations providing services in more than 6000 centres across Australia. The largest provider of services is Goodstart Early Learning which operates 644 centres nationally, caring for more than 72 500 children. In recognition of the diversity of the sector and the large number of children receiving services, the Council of Australian Governments (COAG) agreed in 2009 to significant reforms in the Australian early childhood education and care sector. These reforms set out in the National Quality Framework (NQF), a key component of the National Partnership on the National Quality Agenda for Early Childhood Education and Care, replaced the various licensing and quality assurance processes that had previously existed in each state and territory. The NQF also introduced minimum staff to child ratios and worker qualification requirements. In agreeing to the reforms and in outlining a shared vision²⁴ for

23 The Hon Sussan Ley MP, (Assistant Minister for Education), ‘Statement on Productivity Commission Inquiry into Child Care Early Childhood Learning,’ media release, Parliament House, Canberra, 3 November 2014.

24 COAG’s vision that by 2020 all children have the best start to life to create a better future for themselves and for the nation is set out in *Investing in the Early Years—A National Early Childhood Development Strategy* July 2009.

the sector, COAG recognised that there were significant supply, recruitment and retention issues that existed and that in order to achieve its vision, steps would need to be taken to strengthen the child care workforce.

1.3 The Productivity Commission in its report *Early Childhood Development Workforce*, reflected on both the size of the sector and the potential impact of the COAG reforms. The Commission noted that the reforms would significantly increase the demand for workers—about 15 000 more workers were likely to be required than would otherwise be the case—and the average level of workers’ qualifications would need to increase.²⁵ The Commission also suggested that supply was likely to respond slowly to the growing demand, and that the timeframes for reform which expected full implementation by 1 January 2014 were optimistic. The reform program was likely to be expensive for both governments and parents, as increased staff numbers, and the higher wages—anticipated in response to the increase in demand—would drive up child care costs for families.

1.4 At the time the then government was considering reform directions, the trade union representing some elements of the child care workforce, United Voice, was advocating²⁶ for improvements in pay and conditions in the sector and approached the government with a proposal seeking \$1.4 billion in 2012-13, (increasing annually to \$2.0 billion per year by 2020–21) for a workforce compact similar in form to the Aged Care Compact.²⁷

The Early Years Quality Fund

1.5 To progress reforms and respond to the broader wage pressures then evident, the Prime Minister, the Hon Julia Gillard MP, announced on 19 March 2013, that the government would provide \$314 million²⁸ over five years to boost the quality of early childhood education and support workplace reform. Of this funding, \$300 million over two years would be used to

25 Productivity Commission, *Early Childhood Development Workforce*, November 2011, p.xxii.

26 United Voice had been advocating since August 2008 for increased wages, better conditions and greater respect in the general community for child care workers as part of its *Big Steps in Child care* campaign.

27 At the time the government was also involved in negotiations with unions and employers in other industries culminating in the Aged Care Workforce Compact. These negotiations were preceded by Fair Work Australia’s equal remuneration order in relation to certain workers employed under the Social, Community, Home Care and Disability Services Award 2010. These two initiatives influenced some of the policy development work around EYQF and are briefly summarised in Appendix 2.

28 Australian Government, *Budget measures: budget paper no. 2: 2013-14*, pp. 123-4.

establish the Early Years Quality Fund (EYQF) with the intended purpose of providing grants to long day care providers in order to supplement wage increases of \$3 per hour for Certificate III qualified educators. Proportionally adjusted wage increases were to be made available for other child care workers and diploma and degree qualified educators. The grants were to be made available to providers on a first-in first-served or demand-driven basis.

1.6 A further \$8.2 million over three years was provided for the administration of the fund by the then Department of Education, Employment and Workplace Relations (DEEWR) and the establishment of an advisory board to oversee the fund's operations. The advisory board comprising individuals from the sector was established to provide advice during the implementation and design phases of the fund.²⁹ The government also provided \$6.2 million over four years to establish a Pay Equity Unit in the Fair Work Commission to assist with data and research collection, and provide specialist pay equity information with an initial focus on the early childhood education and care sector.

Parliamentary interest and consideration

1.7 The then government determined it would use a Special Account³⁰ to establish the EYQF and on 30 May 2013, the Early Years Quality Fund Special Account Bill 2013 (the Bill) was introduced to Parliament. The Bill attracted significant stakeholder attention reflecting the level of public interest in the early childhood education and care sector. A large number of submissions³¹ to the two Parliamentary inquiries which ensued focused on the wage disparity that was expected to arise as only a proportion of the early childhood education and care sector would be eligible to receive EYQF funds. Concerns were raised with respect to the amount of funds allocated—\$300 million over two years was considered insufficient to provide wage increases for all long

29 The advisory board's role as set out in its terms of reference included providing advice on: eligibility criteria; equitable funding distribution; application and assessment processes; conditionality of funding; monitoring and reporting to ensure transparency and compliance; and engagement and communication with the sector.

30 A Special Account is a mechanism used to record amounts in the Consolidated Revenue Fund that are appropriated for specified purposes. Special Accounts are used for a variety of purposes including delivering certain government regulatory and business activities, accounting for trust money, segregating money for activities that the Commonwealth funds jointly with other parties, and setting aside funds for medium to long-term government programs.

31 The House of Representatives inquiry received 99 submissions and the Senate inquiry received submissions from 508 individuals and organisations.

day care educators—and the impact on the workforce when funding ceased. The first-in first-served approach also drew concern from small providers and sector representative bodies who considered that the approach would lock out smaller providers as they did not have the resources of larger providers to apply for funds quickly. The Bill was passed without amendment by both Houses of Parliament on 28 June 2013. In his second reading speech on the matter, the then Minister³² noted there was more to be done within the sector to ‘attract and retain qualified, respected educators who are being remunerated in a way that shows their value to the Australian society and the future of Australian children.’

1.8 The *Early Years Quality Fund Special Account Act 2013* came into effect on 1 July 2013, with the object of improving quality outcomes for children in early childhood education and care services, by enhancing professionalism in the sector, including through improved attraction and retention of a skilled and professional workforce. The Special Account's use was restricted to remuneration and other employment related costs and expenses. The account was credited with \$135 million on commencement (1 July 2013), with the remaining \$165 million to be credited on 1 July 2014.

1.9 The provision of grants is a means commonly used by the Australian Government to collaborate with third parties in the delivery of services in support of policy objectives. The grants policy framework that was in place at the time that the funding rounds were completed included the *Financial Management and Accountability Act 1997* (FMA Act), Financial Management and Accountability Regulations 1997 (FMA Regulations) and the Commonwealth Grants Guidelines (CGGs). The framework changed after the funding round was completed, with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) taking effect from 1 July 2014 and the issuing of the Commonwealth Grants Rules and Guidelines (CGRGs) to replace the CGGs.

1.10 The CGGs included several mandatory requirements in relation to decision making by Ministers and reporting, as well as a range of better practice principles to guide government entities in their approach to grants administration. These same requirements are reflected in the CGRGs. Since

32 Minister for School Education, Early Childhood and Youth, The Hon Peter Garrett MP, Second Reading speech; the Early Years Special Account Bill 2013, 25 June 2013.

2002, the ANAO has also published several editions of its Better Practice Guide on Grants Administration to assist entities in their administration of grants.³³

Early Years Quality Fund grants

1.11 In agreeing to the EYQF, the then government sought to achieve outcomes quickly, setting a date for the disbursement of the grants of 1 July 2013. As a result, DEEWR had just over three months to put in place all the necessary arrangements to implement the program, including conducting the grants assessment process. As noted in paragraph 1.5, the government also adopted a demand-driven, first-in first-served approach for the allocation of grants as it considered this would be more likely to meet its timeframes. Under the approach, eligible applications would be processed in the order received and accepted for funding until the funding cap of \$300 million was reached. The CGGs allowed for a number of different approaches to awarding grants, including through demand-driven processes under which applications that satisfy stated eligibility criteria receive funding, up to the limit of available appropriations.

1.12 Access to the EYQF was through an email application process using forms provided on the department's website. To apply for funding, applicants were required to download and complete application forms and lodge them with the department by email in accordance with the EYQF guidelines. Applications opened on Tuesday 23 July 2013. The department registered a total of 1173 submissions from early childhood education and care providers, with a total of 453 applications being approved for funding from the EYQF. To receive the proposed funding, successful providers then needed to take steps to meet the conditions in the offer including putting in place or varying enterprise agreements to reflect the agreed EYQF wage schedule. In late August 2013, 44 providers had met the conditions of offer, and funding agreements were progressed for 16 of these prior to the 2013 Federal election. These 16 agreements provided for the payment of grants totalling \$137 million.

Review of the Early Years Quality Fund

1.13 On coming into office in September 2013, the new government commissioned PricewaterhouseCoopers Australia to conduct a Ministerial

33 The first version of the ANAO *Better Practice Guide on Grants Administration* was published in 1994, and was updated in 1997, 2002, 2010 and 2013.

review of the EYQF. In response to the review report³⁴, the government replaced the EYQF with a new professional development program for child care educators. The new program is directed towards assisting educators in long day care services to meet the qualification requirements of the NQF and improving practice to ensure quality outcomes for children.

1.14 EYQF funding agreements were renegotiated with funding levels payable to the 16 providers reduced. As at 30 June 2014, ten months after the original funding agreements were signed, a total of \$62.5 million was paid to these 16 providers of which \$51.3 million was for wages, \$4.9 million for on-costs and \$6.3 million for professional development. Conditional funding offers for the remaining applications (made in August 2013) were revoked on 11 October 2013.

1.15 The key events in the development of the EYQF are summarised in Table 1.1.

34 The final report on the Ministerial review was publicly released on 10 December 2013.

Table 1.1: Early Years Quality Fund timeline

| Date | Action |
|-------------------|---|
| 19 March 2013 | Letter from the Minister for School Education, Early Childhood & Youth to the Prime Minister seeking authority to establish the EYQF. Letter from the Prime Minister to the Minister granting authority for the EYQF. Department issues FAQ guidance on its website. EYQF details posted by United Voice to its <i>Big Steps Campaign</i> Facebook page. |
| 24 May 2013 | EYQF advisory board appointed. |
| 30 May 2013 | EYQF Special Account Bill 2013 introduced to Parliament. |
| 6 June 2013 | 1 st advisory board meeting. |
| 14 June 2013 | 2 nd advisory board meeting. |
| 17 June 2013 | Senate Inquiry into the Bill reports. |
| 19 June 2013 | House of Representatives Inquiry into the Bill reports. 3 rd advisory board meeting. |
| 27-28 June 2013 | 4 th advisory board meeting. |
| 28 June 2013 | EYQF Special Account Bill 2013 passed by both Houses of Parliament. |
| 19 July 2013 | Program guidelines issued on DEEWR website and advice distributed to long day care service providers. |
| 23 July 2013 | Application process for EYQF opened at 11am AEST. Large provider funding pool cap reached by 1.30pm AEST Small provider funding pool cap reached by 12 midnight AEST. ³⁵ |
| 27 July 2013 | List of providers receiving funding finalised for approval. |
| Early August 2013 | Conditional offers of funding made for 453 successful applications. |
| 6 September 2013 | Funding agreements executed with 12 providers (4 others were signed by the Commonwealth and subsequently considered executed). |
| 7 September 2013 | Federal election. |
| 10 December 2013 | Review report released. The Long Day Care Professional Development Programme announced. |

Source: ANAO.

35 These times represent the point at which the final applications were received to reach the cap.

Request for review by the Auditor-General

1.16 The government's review raised a number of concerns about the manner in which the EYQF had been implemented. Following the release of the review on 10 December 2013, Mr Alex Hawke MP wrote in December 2013 to the Auditor-General requesting that an audit of the EYQF be considered. The Auditor-General agreed that in light of the matters that had been raised, a performance audit would be conducted. The audit commenced in March 2014.

Audit objective

1.17 The audit objective was to assess the effectiveness of the establishment, implementation and operation of the EYQF against the requirements of the *Early Years Quality Fund Special Account Act 2013* and the Commonwealth grants administration framework.

Scope

1.18 The ANAO focused on the key program elements of the EYQF, from the establishment of the fund and the design and conduct of the funding round, and its ongoing operation and management. The main focus of the audit was on the Department of Education and Training (formally DEEWR) and that department's management of the EYQF. The Department of the Prime Minister and Cabinet and the Department of Finance were also included in the scope of the audit in relation to their roles in the policy development stages.

Criteria

1.19 To conclude against the audit objective, the ANAO adopted the following high level criteria:

- program planning and implementation complied with the legal framework, appropriately considered risks and was consistent with the EYQF policy intent; and
- grants administration was undertaken in an equitable and transparent way, consistent with the program objectives and facilitated applications from eligible bodies.

Audit approach

1.20 In undertaking the audit, the ANAO:

- reviewed departmental files and program documentation;
- interviewed and/or received written input from departmental staff and relevant stakeholders, including successful and unsuccessful grant applicants and members of the advisory board; and
- examined a sample of 759 grant submissions. This included a detailed examination of the grant assessments for more than 490 distinct applications which were approved for funding, assessed as compliant, as non-compliant or as ineligible.

1.21 The EYQF was implemented by the Department of Education, Employment and Workplace Relations (DEEWR) and, following the 2013 Federal election, the Department of Education. For ease of reading, this report refers to DEEWR, unless otherwise noted. Under the Administrative Arrangements Order promulgated on 23 December 2014, the Department of Education became the Department of Education and Training, and early childhood programs were transferred to the Department of Social Services (DSS).³⁶ The Department of the Prime Minister and Cabinet (PM&C) and the Department of Finance were involved in the development of the EYQF and were also included in the audit.

1.22 The audit has been conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of \$696 474.

Audit report structure

1.23 The structure of the report is outlined in Table 1.2 below.

³⁶ As the EYQF had been terminated in 2013, DSS did not have any role in its implementation.

Table 1.2: Report structure

| Chapter | Overview |
|--|---|
| Chapter 2 Establishment of the Early Years Quality Fund | This chapter examines the policy development process and establishment of the \$300 million Early Years Quality Fund and the provision of advice to government at various stages. |
| Chapter 3 Implementation of the Early Years Quality Fund | This chapter considers the department's approach to implementing the Early Years Quality Fund with a focus on engagement with the sector and management of key risks to program access. |
| Chapter 4 Access to the Program and Assessment Outcomes | This chapter examines the department's processes for submitting and assessing applications, the recommendation to the delegate and the final funding decision. |
| Chapter 5 Finalisation of the Early Years Quality Fund | This chapter examines the advice the department provided to applicants after the funding decision was made, the processes followed in developing the funding agreements during the caretaker period, and subsequent variations to funding agreements. |

Source: ANAO

2. Establishment of the Early Years Quality Fund

This chapter examines the policy development process and establishment of the \$300 million Early Years Quality Fund and the provision of advice to government at various stages.

Introduction

2.1 While decisions on policy are a matter for government, and generally decisions are made through a Cabinet process, departments should advise on both policy design and implementation risks as part of the policy development process. Commonwealth entities are expected to provide frank, comprehensive and timely advice³⁷ to Ministers to help ensure that government decisions are appropriately supported and well informed. Successful implementation of policy initiatives requires early, informed and systematic consideration of implementation issues.

2.2 The ANAO examined the development of the EYQF policy with a focus on the advice that was provided to Ministers and the extent to which implementation was considered in policy development.

Initial policy development to support the early childhood workforce

2.3 The EYQF was created to assist in the attraction and retention of skilled and professional child care educators through providing increased wage rates for child care workers without these costs flowing on to families. Although the EYQF policy arose from negotiations between stakeholders and the government, it was preceded by broader policy considerations and departmental advice in relation to issues highlighted in the Productivity Commission's 2011 report into the Early Childhood Workforce.³⁸ The government considered a number of options in preparing its response to the Productivity Commission report. As part of this consideration DEEWR

37 The APS Code of Conduct values include responsiveness through providing frank, honest, comprehensive, accurate and timely advice to the government and in implementing the government's policies and programs. <<http://www.apsc.gov.au/aps-employment-policy-and-advice/aps-values-and-code-of-conduct/aps-values-and-code-of-conduct-in-practice>> [accessed on 31 October 2014].

38 Productivity Commission, *Early Childhood Development Workforce*, November 2011.

prepared several new policy proposals in anticipation of a cabinet submission to be based on a broader strategy known as 'Child Care Next Steps'. One of the proposed options involved a compact with the child care sector to address wage matters in return for restraining fee increases. At that time (late 2012), the department was working on a number of options including assumptions which ranged from \$195 million over three years for a one per cent wage increase (or \$6 per week for an average full time educator), through to \$978 million over three years for a five per cent wage increase, which would equate to \$30 per week.

2.4 The Prime Minister's Office (PMO) requested the Department of the Prime Minister and Cabinet (PM&C) to provide a summary of processes that would be required for:

- An application to Fair Work Australia for an equal remuneration order—the advice recognised that minimum wage setting was the responsibility of industrial tribunals, which are separate from government;
- A low-paid bargaining authorisation, which would require multiple employers to bargain for a multi-enterprise agreement; and
- A workforce compact between government, union and business representatives.

2.5 PM&C also advised that there were implementation risks and difficulties with each of the options set out at paragraph 2.4. In particular, a workforce compact was identified as a difficult option for the early childhood sector as the Commonwealth provided very little direct funding to employers. Most government funding in the sector is provided directly to families³⁹ through the Child Care Rebate (CCR) and Child Care Benefit (CCB), which cumulatively total around \$5 billion per annum.

Developing the child care workforce strategy

2.6 Governments generally have several policy development options open to them on significant issues, including the development of Cabinet submissions for consideration by Cabinet or, less frequently, by correspondence between

39 652 000 families received assistance in that year. Source: *Portfolio Budget Statements 2013-14*, Education, Employment and Workplace Relations Portfolio p. 39.

Ministers and the Prime Minister. The advantage of a Cabinet submission is that it can provide for structured consideration of risks, timelines and resourcing from a range of perspectives, namely those of Cabinet Ministers and their departments. In the case of the EYQF, the government chose not to proceed through a Cabinet process. Instead, the policy was largely developed between the offices of the Finance Minister, Treasurer and the Prime Minister, as well as the offices of the Minister for Education, the Minister for Early Childhood and Child Care, and the Parliamentary Secretary for School Education and Workplace Relations. The policy was subsequently settled through correspondence between the Minister for School Education, Early Childhood and Youth and the Prime Minister.

2.7 Through the early stages of January 2013, DEEWR prepared advice for an anticipated announcement of the Child Care Next Steps strategy. However, later in January 2013, the development of the strategy was overtaken by negotiations between United Voice and Ministers' advisers. While this development was driven by advisers, staff in each of the Ministers' offices were in contact with officials in the relevant departments to seek advice or information as required.

2.8 The key aspects of the design of the EYQF were provided in a series of internal papers arising from the negotiations (in February 2013). These papers represented a hybrid approach of options previously considered in the Ministers' offices to address the United Voice child care campaign and comprised a proposal for a *Child Care Workforce Strategy* (including Short Term Assistance for Child Care Sector: Expanded Child Care Flexibility Trial). The child care workforce strategy (CCWS) was significant in that it identified the key policy parameters for the EYQF including the provision of grants on a 'first-in first-served' basis until the available funding was committed.⁴⁰

2.9 The strategy also envisaged that around 30 per cent of the long day care sector would be involved in a compact between government and employers through wage supplementation to be delivered through a grant program to eligible providers. The key features of the proposal were:

40 Although not specifically noted or referenced in the CCWS, the CGGs provided for a number of different approaches to awarding grants including through 'demand-driven' processes under which applications that satisfied stated eligibility criteria received funding, up to the limited of available appropriations.

- establishment of an Early Years Quality Fund of \$300 million, over two years, available from 2013–14; and the formation of an EYQF advisory board, consisting of employee and employer representatives to oversee the operation of the fund;
- access to grants was to be restricted to long day care providers who were approved for the purposes of the Child Care Benefit;
- applications were to be subject to a number of conditions including:
 - a practical commitment to the implementation of the National Quality Framework (NQF), including a detailed plan to meet the workforce qualification requirements commencing in 2014, and evidence of support for the NQF by a majority of permanent employees;
 - approval of an enterprise agreement containing the approved EYQF wage schedule, which set out the hourly wage increase corresponding to each employment classification, with at least a \$3 per hour increase from 1 July 2013 for an entry level educator holding Certificate III;
 - an agreement to fee restraint, with fee increases limited to actual running cost increases (and no fee increases resulting from the increase in wages arising from the operation of the EYQF); and
 - a preparedness to meet specified reporting requirements.

Provision of advice by relevant departments

2.10 Advice on the policy under negotiation was sought from the central agencies, the Departments of Finance, Treasury and PM&C, as it developed. As the entity that would have responsibility for implementation of the EYQF, DEEWR's involvement in the provision of advice in the initial stages was largely limited to contributing to advice being prepared by central agencies.

2.11 Early in 2013 central agencies provided joint advice to their respective Ministers highlighting key issues—including cost, scope, eligibility and timing—for consideration prior to any decisions being taken. In particular the three central agencies recommended that Ministers note:

- (i) the significant fiscal and implementation risks, particularly against the treatment of the SACS⁴¹ equal remuneration case and the Budget backdrop; and
- (ii) if proceeding with a CCWS, to **agree** to the proposed Compact providing wage increases to all workers in long day care centres broadly consistent with the increases payable to workers covered by the Aged Care Compact or the SACS decision.

2.12 A key observation in the advice was that providing wage supplementation directly to employers would change the nature of the government's involvement with the sector. As a result, the brief identified a number of key issues for consideration. A summary of these key issues is below.

The scope and cost of the proposed compact

2.13 The proposal to provide a wage increase to a sub-set of the long day care workforce was considered to risk criticism from the majority of the long day care workforce who would not receive the proposed increase. Employees covered by an enterprise agreement were already likely to be being paid above award rates. This proposal could therefore be seen to benefit 14 500 workers who may already be in receipt of above award rates, while providing no increase to 50 000 workers who were not.

2.14 The (then) proposed \$5 per hour⁴² wage supplementation would represent an increase of approximately 25-30 per cent above (then) current hourly rates.⁴³ While the amount of the increase was consistent with the total increase awarded by the Fair Work Commission (FWC) to SACS workers, SACS increases were being phased in over eight years. The proposed increases were also considerably larger than those provided under the Aged Care Workforce Compact of \$0.46 per hour, of which the government was funding \$0.18 per hour in the first year.

2.15 Central agencies observed that the provision of Commonwealth supplementation for increases in excess of 25 per cent of current wages ahead of any consideration of a wage case by the FWC (which had not been prepared at that time), would raise expectations of continued Commonwealth

41 Additional details about the Social and Community Services (SACS) equal remuneration case and the Aged Care Workforce Compact are in Appendix 2.

42 Initially, the proposed wage increase was \$5.00 per hour, later settled at \$3.00 per hour.

43 The 2010 Children Services Award and the Education Services (Teachers) Award Rates, updated to 2012. Available at <https://www.fwc.gov.au/documents/documents/modern_awards/pdf/MA000120.pdf> [accessed on 13 August 2014].

supplementation for all child care centres after any decision by the FWC. The estimated cost of this would be in the order of \$800 to \$900 million per annum. In the view of the central agencies, a lower wage rise over a larger number of providers could have assisted with mitigating this risk.

2.16 Restricting the proposed compact to a relatively small number of providers was considered likely to have a significant market distortion effect, with those not eligible for wage assistance likely to experience increased difficulty in attracting and retaining qualified staff. This would put upward pressure on fees for those providers, which would in turn flow through to increased costs for parents.

Timing

2.17 The development of a wage compact between the government, participating child care providers and United Voice was noted to be very challenging to implement and make payments from 1 August 2013. Before negotiations on a compact could commence, the scope of the compact would need to be determined and if it was restricted to a sub-set of long day care providers, they would need to be identified through an application and selection process. For this reason the brief noted that 1 January 2014 may have been a more achievable start date.

Alternative options

2.18 The brief also presented alternative longer-term options for the Minister's consideration that central agencies felt would more closely align with the Commonwealth's existing support for child care and be less distortionary to the market. These included:

- (a) Introduction of a loading (approximately 5 per cent) on to the Child Care Benefit to help break the nexus between wage cases and wage supplementation. Providers would be able to increase fees to support wage and training requirements but with an offset to parents targeted at low to medium income earners.
- (b) Increase the level of the Child Care Rebate - Providers would be able to increase fees to support wage and training requirements but without any targeting to parents on low to medium incomes, although it was noted that restriction of Child Care Rebate increases to long day care only would be more difficult to justify and may also introduce market distortions.

Costing assumptions

2.19 The Department of Finance in consultation with DEEWR⁴⁴ provided the Finance Minister's office with an indicative costing assessment for the EYQF which set out several additional assumptions, including that the advisory board would need to be established and meet immediately as it would be responsible for the implementation plan. The most significant of the assumptions set out in the Finance costing was that applications would be based on a first-in first-served basis, which was a feature identified in policy papers prepared by ministerial advisers, as noted in paragraph 2.8. Finance has advised that the assumption was made on the basis of the timetable established by the policy, which called for grant payments to be available and commence from 1 July 2013.

Approach to grant allocation

2.20 The CGG's indicate that the key factors which should be considered when determining the type of granting approach include the objective of the granting activity; the likely number and type of application; the nature of the grants; the value of the grants; and the need for timeliness and cost-effectiveness in the decision-making process while maintaining rigour, equity and accountability.⁴⁵ Additionally, the CGGs state that competitive, merit-based selection processes should be used to allocate grants, unless specifically agreed otherwise by a Minister, chief executive or delegate. As discussed at paragraph 2.8, the determination of the first-in first-served grant selection process was not well documented in the development of EYQF. In this context, a first-in first-served process was essentially a demand-driven granting activity under the CGGs, where applications that satisfied the stated eligibility criteria received funding, up to the limit of available appropriations and subject to revision, suspension or abolition of the granting activity.⁴⁶

2.21 There are advantages and disadvantages to both merit-based and demand-driven granting activities. Drawbacks of the latter approach include that it is likely to result in applications being assessed in relative isolation,

44 This indicative costing was developed in consultation with DEEWR particularly with respect to consideration of DEEWR's costs associated with EYQF's implementation.

45 Department of Finance and Deregulation, *Commonwealth Grant Guidelines – Policies and Principles for Grants Administration*, Financial Management Guidance No. 3, Canberra, June 2013 (2nd Edition) p. 61.

46 *Ibid.* p. 61.

potentially making it more difficult to ensure there are consistent processes, standards and interpretations of the grant guidelines applied in the decision-making process.⁴⁷ A merit-based approach offers advantages such as a more transparent and reliable method of selecting successful applicants.

2.22 The nature of the granting activity will affect the content of the program guidelines. While demand-driven granting activities can be an efficient means of providing intended recipients with funding, the potential for oversubscription of the EYQF was very high. Accordingly, an assessment of its implications for the eligibility criteria and how the program would be managed when the available funds were exhausted was desirably required in the policy design phase of the program. Such an assessment could have been used to appropriately inform the government on matters such as whether or not a demand-driven program was the most appropriate or a maximum grant limit should be applied. As a department experienced in implementation, DEEWR was well positioned to consider the risks and benefits of different approaches. In the early policy development stage, the department did contribute advice in relation to the workplace relations aspects of the policy. Although, as the agency that would be responsible for implementation, the department did not and was not requested, to provide advice in relation to the demand-driven nature of the grant activity in briefings prepared by central agencies. There was a further opportunity for DEEWR to address implementation matters, when developing correspondence for the Minister on the EYQF proposal which would form the policy proposal that received authority from the Prime Minister in March 2013. Subsequent to the decision, the department did provide advice on implementation, but in essence this was too late in the piece to result in any change to the government's approach.

Policy approval and announcement

2.23 Once the agreement had been reached between Ministers around the policy parameters, DEEWR was requested by the Prime Minister's Office to prepare correspondence for the Minister for School Education, Early Childhood and Youth, seeking policy authority from the Prime Minister for the EYQF. In addition to preparing the draft correspondence, a department would generally be expected to advise its Minister, including in respect of any

47 ANAO *Implementing Better Practice Grants Administration – Better Practice Guide* December 2013, Section 4.2.1 p. 33.

significant risks to the policy design or implementation, and opportunities to mitigate those risks in the event the government determined to proceed with the proposal. Although the department held concerns around some aspects of the proposal at this time, including around the meaning of the first-in first-served approach to grants, the department elected not to provide the Minister with any accompanying advice on the EYQF proposal.

2.24 The Prime Minister agreed to the package of measures set out in the Minister’s letter on 19 March 2013⁴⁸, thereby providing policy authority for the EYQF. The Prime Minister’s letter also requested an implementation plan be provided (to the Prime Minister) by 8 April 2013, which was to include timeframes for the establishment of the EYQF advisory board, and development of its advice ahead of a 1 July 2013 implementation date and advice on how the EYQF would be accessed by a range of providers.

Additional advice to Ministers

2.25 From an implementation perspective DEEWR regarded the first-in first-served process (which had been agreed by government), as problematic, recognising the challenges associated with this approach. The department provided a brief to the Minister for School Education Early Childhood and Youth in early April 2013 setting out alternative options for implementation, which included:

- moving from first-in first-served to allocate funding by jurisdiction and size of service;
- prioritising applications on the basis of quality of application;
- advice that if on-costs were to be included in the grants, these should be on a sliding scale; and
- a suggestion that grant funding should only be available for qualified early childhood education and care workers who have direct contact with children (i.e. exclude administrative and support staff that might otherwise be covered by the enterprise agreement).

2.26 In comments provided to the department in response to the April 2013 briefing to the Minister for Education, advisers in the Prime Minister’s Office did not accept the alternative options outlined above. The response from the

48 This was the same day that the Minister signed the correspondence to the Prime Minister.

advisers indicated that with respect to prioritising applications on the basis of quality, the department was 'over thinking' the process. In relation to the inclusion of on-costs, the Prime Minister's Office indicated that it had already determined that on-costs were to be included; but that the Education Minister's office would test a sliding scale and a 13 per cent cap on on-costs with United Voice, and assess the likely response of Goodstart Early Learning.⁴⁹ In the event, resolving the issues around the payment of on-costs was referred to the advisory board for consideration. The rate of on-costs was finalised along with other changes recommended by the advisory board (see paragraph 3.14) when the guidelines were formally approved.

2.27 In July 2013, one week before opening calls for grants, the department again suggested informally via email to the Minister's advisers that despite the timeframe implications, conducting a comparative merit-based assessment process would produce a better policy outcome and would be considered by the sector as being more equitable and transparent than a first-in first-served process. There was no direct response to this suggestion.

Inherent risks

2.28 There were inherent risks that derived from the fact that DEEWR did not provide advice on program implementation during the policy development process for EYQF. DEEWR's key opportunities to influence the development of EYQF policy prior to its agreement were twofold: firstly the input into advice provided by the central agencies; and secondly in preparing correspondence for its Minister, however, the department elected not to provide any implementation advice at either point. Consequently there was little consideration during the early stages of EYQF establishment of how the program would be implemented. Given that the policy was already agreed and timeframes for establishment of the program were tight, the concerns that were later raised by DEEWR, did not gain traction with ministerial advisers and were not accommodated before the program guidelines were released. The development of the program guidelines is discussed in more detail in chapter 3.

49 Goodstart Early Learning operates 644 centres caring for more than 72 500 children and employs more than 13 000 staff. Source: Goodstart Early Learning 2014 *Annual Report* 30 June 2014, available at <<http://www.goodstart.org.au/GoodStart/media/GoodStart/PDFs/Annual%20reports/Goodstart-2014-Annual-Report-2014.pdf?ext=.pdf>>.

Conclusion

2.29 Policy development takes a number of different forms. Some policies can be developed and implemented with long lead times while others must be developed and implemented quickly. A key element of all policy development is the need to give early, informed and systematic consideration of implementation issues. Involvement of implementing entities and the provision of advice by those entities at appropriate stages of the policy development process helps reduce subsequent implementation risks. The advantage of a Cabinet submission is that it can provide for structured consideration of risks, timelines and resourcing from a range of perspectives, namely those of Cabinet Ministers and their departments. However, in this instance, the government elected to manage the proposal through correspondence between Ministers and the Prime Minister.

2.30 Important details around the operation of the grant selection process were decided by government as part of the policy announced on 19 March 2013, including that the grants were to be made available to providers on a demand-driven first-in first-served basis, an advisory board would be appointed, and that payments from the fund would commence with effect from 1 July 2013. It is open to governments to adopt approaches of its choice, and in view of the timeframes of the EYQF, demand-driven granting activities had the potential to be an effective means of distributing funding to child care providers. While DEEWR raised with the Minister (and later with the Minister's advisers) that a merit-based process could be more appropriate (than first-in first-served), this advice was provided too late to effect a change in the policy design, as the policy decision had already been taken by government.

3. Implementation of the Early Years Quality Fund

This chapter considers the department's approach to implementing the Early Years Quality Fund with a focus on engagement with the sector and management of key risks to program access.

Introduction

3.1 The implementation of Australian Government policy initiatives is one of the key responsibilities of government entities. In recent years there has been an increasing focus on, and a community expectation of, sound policy implementation and the seamless delivery of government policies.⁵⁰ Successful implementation requires early, informed and systematic consideration of issues as they arise throughout implementation.

3.2 Following the government's decision to proceed with the EYQF, DEEWR was responsible for developing and implementing the administrative arrangements for the program. As noted in paragraph 2.28, the design of the EYQF policy contained inherent risks (the funding constraints, the first-in first-served approach and the short timeframe). Implementing the program would require a concerted effort on DEEWR's part to meet government's timing expectations and ensure equity of access to the program.⁵¹ The EYQF advisory board also had an important role in the program's implementation, through the provision of advice to the department on how grants would be accessed by a range of providers and direction in the development of the program guidelines.

3.3 As EYQF funding was provided on a first-in first-served basis, it was critical that applicants could easily understand the details of the program, how to apply and how their application would be assessed against other applications. This would avoid potential costs to applicants associated with

50 The Department of Prime Minister and Cabinet, and the Australian National Audit Office, October 2014, *Successful Implementation of Policy Initiatives Better Practice Guide*, p. 3

51 The department was provided with an additional \$8 million to administer the EYQF over a three year period in view of the likely volume of grant applications requiring assessment, rapid roll out and requirement for ongoing detailed monitoring at service level. A portion of this allocation was to provide for the establishment and running costs of the EYQF advisory board with the remainder of the funding for the set up and administration of the fund.

developing and submitting applications that were not eligible, had little chance of success⁵² or were received too late—after EYQF funding was fully committed.

3.4 The ANAO examined the department’s approach to planning for EYQF grants focusing on the department’s engagement with stakeholders including the advisory board and the management of key risks to program access which arose in the development of the program guidelines.

Engagement with stakeholders

3.5 Effective stakeholder engagement starts with a clear objective for consultation, followed by the identification of people and organisations with a clear interest in the initiative. Stakeholder engagement also requires openness and consideration as to why people are being consulted, how and when they will be consulted, and how much influence they will have.⁵³

Stakeholder reaction to the Early Years Quality Fund announcement

3.6 The EYQF was announced by relevant Ministers⁵⁴ when meeting with the National Children’s Services Forum (NCSF), in Canberra. The initial reaction of the sector to the EYQF was mixed. While some stakeholders supported the program, others were strongly opposed to it. The two main peak bodies, Early Childhood Australia (ECA) and the Australian Childcare Alliance (ACA) both made separate representations to the Minister for School Education Early Childhood and Youth advocating for reconsideration of the program and policy parameters.⁵⁵ Both bodies distributed information about the merits of the EYQF and their respective position to their members, educators and families with children attending child care centres. United Voice was also active in promoting the program and engaged in a grass roots campaign to recruit educators into the union and offered child care providers with assistance to develop enterprise agreements in preparation for EYQF

52 Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, June 2013, paragraph 8.7.

53 The Department of the Prime Minister and Cabinet, and the Australian National Audit Office, October 2014, *Successful Implementation of Policy Initiatives Better Practice Guide*, pp. 35-36.

54 Minister for Employment and Workplace Relations, the (then) Minister for School Education Early Childhood and Youth, and the (then) Minister for Early Childhood and Child Care.

55 The two peak bodies were not in agreement around how the program might be adjusted, for example ACA proposed that the available funding be distributed equality amongst childhood educators so that every worker received an additional \$1 an hour, while the ECA was concerned that a \$1 per hour increase would not achieve professional wages for early childhood educators.

grants. A significant number of providers took up the union's offer for assistance and started negotiations for entering into enterprise agreements with their workers, in anticipation of the EYQF grants process commencing.

Advisory board's role

3.7 The formation of the EYQF advisory board was included in the announcement of the EYQF on 19 March 2013, and approved by the (then) Prime Minister on the same day. Board membership was initially intended to be finalised by 3 April 2013 after formal approval by the (then) Minister and (then) Prime Minister. However, there were delays in both the Minister's office and the Prime Minister's office and the final list of candidates was not approved until 24 May 2013. The announcement of the membership of the advisory board and its terms of reference also met with a mixed reaction from the peak bodies and other stakeholders. Initially, the advisory board's role—advising on the content and operation of the EYQF program guidelines—was intended to provide members with an opportunity to directly influence the program settings. At its first meeting in June 2013, the board considered its role in relation to communication with the sector, and resolved to amend its charter to make clear the advisory and expert nature of the board (rather than as a representational board), and to further clarify the policy and process elements of the fund that were outside the responsibility of the board. The board further resolved to publish post meeting communiques to provide a broad description of the decisions made at board meetings. However, other than the two communiques released by the board, no other information was communicated to the sector by the advisory board.

3.8 Members of advisory boards are generally selected for their specialist knowledge and may include stakeholders sourced from industry, the community or special interest groups. While there are obvious advantages in appointing qualified or highly experienced members, their expertise can also present conflicts of interest risks for an entity. The department recommended to the Minister that, with one exception, early childhood employer and employee organisations should not be invited to join the board to avoid perceived or real conflicts of interest.⁵⁶ However, in seeking the Prime Minister's agreement to the advisory board appointments, the Minister

56 Early Childhood Australia (ECA) which is a peak national, non-profit, non-government organisation that advocates for young children and quality outcomes in the early childhood sector.

advised (on recommendation from the department) that some board members, which included employer and employee organisations, would be required to remove themselves from discussions on the development of funding agreements, or negotiating enterprise agreements in their own organisations.

3.9 The department decided that it would seek probity advice on an as required basis, and a probity adviser was retained initially to prepare and deliver a probity briefing at an advisory board meeting, and reviewing board documents. The scope of the initial probity engagement would prove to be insufficient for the department's needs, and at the request of the advisory board chair, it was agreed that the probity adviser should attend all of the board meetings due to actual and perceived conflicts of interest associated with the board membership. Notwithstanding the high degree of awareness around the integrity of the process, there is no departmental record of any members or their proxy withdrawing themselves from meetings during the discussions of subjects which might conflict with their position, such as details and requirements in the development of application forms and processes. It was held in good faith that members would act in the best interests of all providers and educators and not share information or knowledge from the meetings with their organisations, particularly those organisations that were applying for funding or represented the union. The probity adviser signed off on the process, indicating that the board meetings had been conducted in accordance with the advisory board charter and the policies of the Commonwealth.

DEEWR's communication with the sector

3.10 DEEWR developed a communication plan to raise awareness of EYQF among child care providers and the general public. In addition to the communication activities of the advisory board, the plan set out various other communication channels and activities including sector consultations, website promotion, providing information for Industry/Sector publications, E-newsletters, media releases, email updates through the Child Care Management System (CCMS) and EYQF subscriber lists, and Frequently Asked Questions (FAQs) posted to the department's website. In practice, the actions arising from the plan were limited. FAQs on the EYQF web page were updated between the announcement of the program in March and the issuing of program guidelines in July 2013, however, the department provided little other information to the sector and no public consultations were held.

3.11 In addition, where the department was aware of information being provided to stakeholders by United Voice, the department's response did not extend to providing more detailed information about arrangements or taking a more active approach to its communications. In the weeks following the announcement of the EYQF, the Minister and the department received correspondence in relation to information being provided by United Voice. The department responded to individual enquiries on the Minister's behalf and wrote to United Voice requesting that its representatives note the updated FAQs on the EYQF website so that consistent information could be provided on the program.

3.12 At a National Children Services Forum on 2 July 2013, there was broad opposition to the fund. In briefing the Minister with respect to the forum, DEEWR advised that many members of the forum had raised concern at the lack of consultation with the sector about such a significant policy, prior to its announcement. The department did not however, propose any additional communication activities to assist in remedying the issue.

Management of key risks to program access

3.13 Successful program implementation relies on the identification and management of key risks. Implementation initiatives that involve other parties can increase the complexity of risk management.⁵⁷ Regardless of the involvement of other parties, there remains an underlying reality that Australian Government entities ultimately retain responsibility for delivering initiatives and for contingency plans in the event of risks materialising.⁵⁸ In this context the ANAO examined the department's treatment of key implementation risks including the recommendations from the advisory board, the development of the wages schedule and the ease of use of the program guidelines.

Advisory board recommendations

3.14 In keeping with its terms of reference, the advisory board made a number of recommendations to the department on how the grants would be accessed by a range of providers. These recommendations were made in response to issues which the board identified during its deliberations,

57 The Department of the Prime Minister and Cabinet, and the Australian National Audit Office, October 2014, *Successful Implementation of Policy Initiatives Better Practice Guide*, p. 32

58 Ibid. p. 33

including: the application for grants on a service by service basis which was considered likely to create a red-tape burden on providers with multiple services; the inability of small providers to compete against large providers, given their more limited resources; and the level of support for on-costs which was considered to be too low. In examining the issues, the board also viewed the proposed changes from an equity perspective, however, noted that it was not possible to ensure equitable distribution of the EYQF because the fund was capped and the parameters for the wage increase meant that about 60-70 per cent of long day care services would not be assisted. The issues and the approach adopted by the department for each are outlined below.

Service by service vs provider grant applications—EYQF grants were intended to be let on a service by service basis. However, the advisory board viewed this as administratively difficult and burdensome for large providers who managed corporate functions centrally. To resolve the issue the board recommended applicants apply for grants on a provider basis and include details of each service. In briefing the Minister the department did not raise any issues with the approach, however did advise that individual services within a provider application would be excluded if found to be ineligible and, if more than 10 per cent of the services were ineligible, the entire application would fail.

On-costs—EYQF grants were intended to cover flow on costs to employers such as workers compensation insurance, and superannuation, which would arise from the payment of higher wages to employees. These on-costs were initially set at 16 per cent. The advisory board considered the percentage allocated was inadequate and recommended that on-costs of 25-30 per cent would more accurately reflect actual costs associated with the program. The board also noted that if on-costs were not increased there was a risk that providers would pass these costs on to parents via fee increases. In briefing the Minister the department advised that over the sector, on-costs of 20 per cent would reduce the number of services/educators assisted by a further 3.5 per cent. Subsequently, the Minister sought approval from the Prime Minister to increase the percentage of on-costs payable to 20 per cent. This reduced the amount of funding available for wage increases by about \$10.5 million.

Competition between small and large providers—EYQF grants were to be made available on a first-in basis. The board was concerned that under the first-in first-served approach, large providers could quickly deplete the fund at the expense of smaller providers. The board determined that splitting the available funding into small and large provider pools based on the number of sites per provider could be a practical solution to avoid the problem.

Continued on next page

The department provided the board with data on the size distribution of the sector to enable the board to determine how the funding for large and small providers might be split. The data showed that large providers represented only around 20 per cent of child care places and services, however the board determined that the fund should be split 50:50 amongst large (defined as providers with more than eleven services) and small providers. In briefing the Minister on the recommendation the department did not draw adequate attention to the potential impact of the change on small providers and the disproportionate distribution that would result, if the recommendation was agreed. The department merely reflected the boards advice in an attachment to the brief noting that:

... equitable access to the fund would be promoted by making large providers compete against large providers and small providers compete against small providers, but noted it would not ensure equal distribution and a disproportionate portion of funds was still going to larger providers'.

The Minister's Office subsequently made further changes to the definition of a large provider⁵⁹ (with more than 16 services). In correspondence to the Prime Minister (drafted by the department) the change was described as 'promoting equitable access to the fund' and no reference was made to the disproportion which would result.

3.15 The advisory board's recommendations (discussed above) introduced further risk that access to grants by small providers, would be further diminished. However, DEEWR's approach to briefing the Minister with respect to these was not comprehensive. While the department advised on the impact of the on-costs (which were relatively minor), it did not explain the impact of the 50:50 funding split (which if applied based on the proportion of large to small providers, reduced the funding available to small providers by \$93 million). In addition, it did not draw on or consider the issues within the context of the sensitivities around access for smaller child care providers reported by stakeholders to the Parliamentary inquiries:

The \$300 million funding available is capped and this means that the majority of services and educators will miss out. It has been estimated that the fund will only cover wage increases for 30–40 per cent of educators working in the long day care sector. This raises significant equity issues. Many employers will be at a disadvantage because they do not have an Enterprise Agreement in place or face barriers to putting one in place (lack of expertise, lack of capacity, complex workforce with educators working across settings that would not be eligible for funding etc). ECA [Early Childhood Australia] is particularly concerned that small organisations, both private and not-for-profit, will be at a

59 Although the Minister signed a subsequent letter with the changes, there is no contemporaneous record of the Minister's policy decision to change the funding allocation between large and small providers from that recommended by the board, nor the increase of on-costs.

disadvantage. Larger providers with Enterprise Agreements already in place and dedicated HR personnel will potentially enjoy a strong competitive advantage in the application process.⁶⁰

3.16 Further, correspondence prepared by the department for the Minister's signature, to seek authority for the change from the Prime Minister, was ambiguous and described the funding split as promoting equitable access to the fund. The correspondence did not alert the Minister to the likely effect of the change on small providers.

The wage schedule

3.17 Applications for EYQF funding were subject to a number of conditions including the approval of an enterprise agreement containing the approved EYQF wage schedule. The schedule set out the hourly wage increase corresponding to each (employment) classification and was included in the EYQF program guidelines, and converted into an Employee Hours and Grants Calculator tool used by applicants to determine grant funding.

3.18 The wage schedule was not developed by DEEWR but was instead provided by United Voice to the Prime Minister's Office (PMO). On the day the EYQF policy was announced (19 March 2013), an adviser in the PMO forwarded the wage schedule to the department and sought confirmation of the estimated number of workers that would be covered (by the \$300 million in the fund) and advice as to whether the United Voice calculations were considered correct by the department. While the department raised concerns internally about the schedule—including that there was uncertainty about the number of people at different levels of the award, and that the schedule included paying unqualified staff and on-costs—it did not check the wages schedule for errors and did not provide advice back to the PMO. In the event, the wage schedule, issued with the program guidelines when applications opened, contained a number of errors including missing classifications.⁶¹ These errors flowed through to the grants calculator affecting grant funding amounts and were brought to the department's attention by United Voice on 19 July 2013, the day the guidelines were published. The department took no

60 Submission from Early Childhood Australia to the Early Years Quality Fund Special Account Bill 2013 *Senate Enquiry*, June 2013.

61 The wage schedule classification scales contained a number of errors. In particular, the grandfathered 'A' classifications in the modern award and a number of the employee classifications were omitted from the wage schedule and the Employee Hours and Grants Calculator.

action at this time (the impact of the error was not estimated), and did not issue any amendments to the grant guidelines. When applicants raised the errors with the department they were advised to fit staff into the existing classifications within the wage schedule. Consequently, the department could not confirm the accuracy of the requested, and subsequently approved, funding amounts.

3.19 The department subsequently advised the Minister of the errors in late July⁶² and at this time recommended that an addendum to the program guidelines be issued. The approach was agreed by the Minister and on 6 August 2013, after the conditional letters of offer had been finalised, the wage schedule was modified to show the additional classifications. Although no approach was suggested at the time to verify the accuracy of funding amounts requested, the department subsequently amended some amounts in the funding agreement negotiation process. Overall, the department's advice to the Minister was not timely and did not provide a clear view of the number of applicants that were affected. Initial assumptions made by the department that the errors would have minimal impact on the process were not based on analysis of the wage schedule itself. Earlier attention to the identified errors would have allowed the department to provide the Minister with a more accurate assessment, prior to the dispatch of the conditional letters of offer.

Calculation of Early Years Quality Fund wage increases

3.20 The wage schedule set out wage increases of \$3.00 per hour for Certificate III qualified educators and a percentage increase applied over the classification scale. The ANAO's examination of the wage schedule showed that the percentages applied to determine the hourly wage increases did not align with the wage rates of the modern awards in force at the time.⁶³ The department advised that it did not consider applying a percentage wage increase relative to the award; instead it relied on the wage schedule as it was supplied from the PMO. The funding increase available to unqualified staff was less under the EYQF wage schedule than it would have been using the percentages applied to the award. Conversely, the increase available to

62 The brief itself is undated, but it requests action by the Minister by 31 July 2013 to ensure grant approval letters could be sent to successful applicants as soon as possible.

63 The determination for the Children's Services Award 2010, available at <https://www.fwc.gov.au/documents/awardsandorders/html/PR522982.htm> and the determination for the Educational Services (Teachers) Award 2010 available at <https://www.fwc.gov.au/documents/awardsandorders/html/PR522939.htm> [accessed on 23 September 2014].

Certificate III holders was greater. There is no documentation to indicate how relativities under the wage schedule were determined.

Distribution of the wage schedule

3.21 As noted in paragraph 3.18, the wage schedule was approved and publicly released as part of the program guidelines on 19 July 2013. However, information contained in the wage schedule was available and circulated to some providers from March 2013, when it was posted on the United Voice Big Steps Facebook Page. Of the 453 applications that were approved by DEEWR, there were 57 applicants to the EYQF that had enterprise agreements approved on or before the day the program guidelines were released, using wage schedule data that was not officially available at the time. Nine of these included the employee classifications that had been omitted from the official version of the wage schedule. While the department was aware⁶⁴ that some applicants had accessed the wage schedule prior to the release of the guidelines, it did not consider that these providers could be advantaged through their early access. The department did not put in place any remedy to the situation and did not raise the issue with the Minister. The department waited until the schedule was approved through the grant guidelines approval processes (which included approval by the board and the Minister and Finance Minister which did not occur until 6 June and 12 July 2013 respectively), prior to the formal release of the schedule as part of the EYQF guidelines on 19 July 2013.

Early Years Quality Fund guidelines

3.22 In addition to working closely with the board to develop the grant guidelines, the department also needed to work within the broader framework provided by the then Commonwealth Grant Guidelines (CGGs). The CGGs require agency staff to ensure that the rules of granting activities are simply expressed, are clear in their intent and are effectively communicated to stakeholders.⁶⁵ Given that EYQF funding was provided on a demand-driven first-in first-served basis, it was critical that applicants understood the details of the program, how to apply and how their application would be assessed against other applications. This would avoid potential costs to applicants

64 The department advised it monitored all media streams relevant to the EYQF, including the Big Steps Facebook page.

65 Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Financial Management Guidance No. 3, Canberra, June 2013 (2nd Edition) p. 38.

associated with developing and submitting applications that were not eligible, had little chance of success⁶⁶ or were received after EYQF funding was fully committed.

3.23 The contents of the EYQF program guidelines largely accorded with the guidance in the CGGs. However, the guidelines were long (51 pages when first issued, and later extended to 54 pages).⁶⁷ In addition, there were numerous supporting documents (nine in total), ranging from two page Fact Sheets to 18 page instructions to completing the EYQF application. Much of the information contained within the documents was repeated. In this respect, the department was of the view that repetition would address concerns that providers would read only parts of the guidelines. There were also areas of inconsistency between the guidelines and the supporting documentation. The resulting guidelines were complicated and not conducive to a first-in process where applicants would need to be poised to take action and made decisions about whether or not to apply for the grants quickly. Further, much of the application requirements were not ultimately used by the department during the assessment process. The application and assessment process is discussed in more detail in chapter 4.

3.24 The initial recommendation of the advisory board was to make the guidelines available to applicants two weeks prior to applications opening. However, a decision by the Minister's Office to expedite the application process resulted in applicants only having two working days (four days in total) to read and understand the guidelines and supporting documents before applications opened on 23 July 2013. Given the tight timeframe, the volume of information and inconsistencies in the guidelines and supporting documentation, the risk of poor quality applications was high.

66 Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, June 2013, paragraph 8.7.

67 An Addendum to the guidelines was published on 8 August 2013 bringing the total to 54 pages.

Conclusion

3.25 Program implementation is a key responsibility of government entities. Successful implementation requires early, informed and systemic consideration of issues as they arise and mitigation of risks. Equitable access was a significant risk that needed to be managed as EYQF was implemented but in practice, accessibility to EYQF grants was reduced by limited consultation and public information about the EYQF grant process. Communication with the child care sector was intended to be managed by the EYQF advisory board.⁶⁸ However, the board's ability to inform the sector was constrained by delays in its establishment. Although the department had developed a communication plan, in practice few communication activities occurred. The advice provided to the sector by the department was limited and where inconsistent information was provided to the sector by third parties, the department's response was low key and did not extend to the provision of more comprehensive information for the sector. The communication approach combined with the short timeframe set by the then government—two working days between the guidelines being released and the program applications opening—was not conducive to a first-in first-served environment, where applicants needed to be poised to make business decisions and act quickly when applications opened.

3.26 Some of the recommendations from the advisory board and the complexity of the program guidelines also posed significant risks to program accessibility. The department did not consider the impact that these risks would have on the successful implementation of the EYQF and did not put in place adequate mitigations to avoid the adverse outcomes which arose. In addition, DEEWR was aware of stakeholder concerns with respect to program access for smaller providers reported during the Parliamentary inquiries, and should have drawn more attention to the disparity created by the board's recommendation (concerning the 50:50 split of funding) in the advice and correspondence provided to its Minister. With respect to the wage schedule, the department could have taken more care to ensure that the schedule was correct from the outset. In addition, the department should have considered the risk presented by some providers having early access to the schedule.

68 The EYQF advisory board comprised sector representatives and was established as part of the EYQF policy parameters and aimed to provide advice to the Minister during the implementation and design stages of the fund.

4. Access to the Program and Assessment of Applications

This chapter examines the department's processes for submitting and assessing applications, the recommendation to the delegate and the final funding decision.

Introduction

4.1 The main objective in implementing a granting activity is to maximise the cost-effective achievement of the outcomes sought by government, while providing transparent and equitable access to grants.⁶⁹ This includes ensuring that the assessment process accords with the established grant program requirements. Several aspects of the design of the EYQF contained risks relevant to the successful receipt and assessment of grant applications. These included the allocation of grants on a first-in first-served basis, and the short timeframe available for applicants to download and complete application forms and lodge them with the department by email in accordance with the EYQF guidelines. Additionally, applicants were divided into small and large provider pools.

4.2 The ANAO examined the:

- process for submitting applications and the department's management of their receipt;
- assessment guidance and assessment process adopted;
- assessment outcomes against the criteria in the guidelines and the revisions adopted by the department; and
- record-keeping practices.

Overview of EYQF application process

4.3 In keeping with the then government's expectations, the entire process from application to approval was short, spanning just two weeks. Sample application forms were available for potential applicants to download and view from 11:00am AEST Friday 19 July 2013, two business days prior to

69 ANAO *Implementing Better Practice Grants Administration – Better Practice Guide* December 2013, Section 4.2.1 p 30.

applications opening. Applications opened at 11:00 a.m. AEST on Tuesday 23 July 2013 at which time, the final version of the application forms could be downloaded and completed. The timeline and key milestones for the grant assessment and selection process is outlined at Table 4.1.

Table 4.1: Early Years Quality Fund grant process timeframe

| Event | Date |
|---|---------------------------------------|
| Program documents available on EYQF website | 19 July 2013 |
| Application process opened | 23 July 2013 |
| Assessment process | 23 July – 2 August 2013 ⁷⁰ |
| Approval process | 26 July – 2 August 2013 |
| Letters sent to applicants | 27 July – 2 August 2013 |
| Funding agreements executed | 6 September 2013 |

Source: ANAO analysis of department documents.

4.4 Applicants were divided into small and large provider pools and could only apply for grant funding appropriate to their size. The \$300m funding available was split equally between the two pools. Applicants were required to self-assess if they were small or large providers according to the number of service sites. Providers with:

- 15 services or less were classified as small providers; and
- 16 or more services were classified as large providers.

4.5 Aside from the classifications of large or small providers, there were separate forms for:

- Single service providers; and
- Multi-service providers (submitting on behalf of more than one service).⁷¹

4.6 The department registered 1173 submissions⁷² between 11.00am on 23 July, when the EYQF application process commenced, and 25 September 2013, when the last recorded email was received. The \$300 million funding cap was

70 Assessments for five applications were dated after 2 August, however, these appear to be anomalies in the process, for example, relating to the reconciliation process. The reconciliation process is discussed in more detail at paragraph 4.49.

71 A provider with more than one service could also choose to submit individual applications on a per service basis using the single service provider form.

72 Applications could be received in multiple email submissions.

reached less than 13 hours after the application process commenced. Of the 1173 submissions received, 554 were registered after the funding cap had been reached.

Managing applications

4.7 As a demand-driven program, EYQF grants were to be allocated based on eligibility on a first-in first-served basis. Applications were to be processed in the order they were received and assessment was to continue until the \$300 million funding cap was reached. To support equitable access to the program, DEEWR needed to adopt an approach for managing EYQF applications which both accurately captured the receipt time of each application and allowed for the efficient processing of applications. The approach also needed to be able to manage a large number of applications—more than 6000 providers of long day care services could have potentially applied for EYQF grants—and meet the government’s expectations in relation to timing.

4.8 The guidelines acknowledged that the EYQF was capped and not all eligible applicants that applied would be approved for funding. As a result of these policy settings, management of the applications process using the first-in first-served rule depended upon an accurate applications receipt process, supported by well-maintained records to demonstrate an accountable, transparent and equitable process.

The grant application system

4.9 To manage the grant application process, DEEWR considered its options including developing a new system, or modifying existing procedures based on the Child Care Management System (CCMS).⁷³ In the end the department decided to use the existing email system as it was working to a compressed timeframe for implementation, which at that time, required grants to be paid from 1 July 2013. The requirements of the email based application process were discussed with departmental IT staff, and a number of risks were identified, including risks based on past experiences of the department with grants, and in particular, problems arising from email submissions. While the risks associated with an email approach were not new, the EYQF risk register

73 The Child Care Management System is a national online computer system. All approved child care services are required by law to operate under the system. Child care services use the Child Care Management System to record child enrolment and attendance information. This data is used by the department to calculate fee reductions and pay services on behalf of eligible families.

did not identify the specific risks relating to using email systems and testing of the system was limited.

Time differences in the receipt of emails

4.10 Very small time differences had implications for the first-in first-served order of applications. The department did not anticipate that EYQF applications could be delayed as they passed through the department's email gateway and that this delay would affect the time that applications were received in the EYQF email inbox. The ANAO's examination of the time of receipt of applications at the department's gateway and in the EYQF inbox found that 64 applications were delayed at the gateway. Overall, while none of the applications were subsequently released after the funding cap had been reached, 54 of the 64 applications were ranked lower on the list of applications than they would have been as a result of delays at the department's email gateway. The most significant time difference between an email being received at the gateway and released to the EYQF mailbox was nearly two hours, affecting the placement of that application on the time receipt list by 238 places.

Mailbox size limits and the requirement for a complete application

4.11 There was a range of details about how the grant program would operate that were not resolved in the guidelines when they were released, including some processing rules that were not clearly stated. Section 3.3.3 of the guidelines stated that only fully completed applications would be assessed. A later section of the guidelines notes that when attaching supporting documentation to the email, applicants needed to be aware that if the completed application form and all mandatory attachments exceeded 5MB of data, applicants might need to submit more than one email. Applicants were provided one business day to submit multiple emails.

4.12 Under these conditions, it was open to interpretation as to whether the first email that was submitted should be used as the placeholder in the first-in first-served queue, or the final email that was received, signifying that the application was complete. The department decided that the first email received was to be used to identify where an application was placed on the receipt list. While this information was provided in the guide to completing the EYQF Application Form, it was not detailed in the guidelines. There were 11 instances⁷⁴ where this rule was not applied. This resulted in these 11

74 Recognising that four of these first submission emails were delayed at the gateway.

applications being placed lower on the receipt list by up to 201 places, noting that all of these applications were assessed within the funding cap.

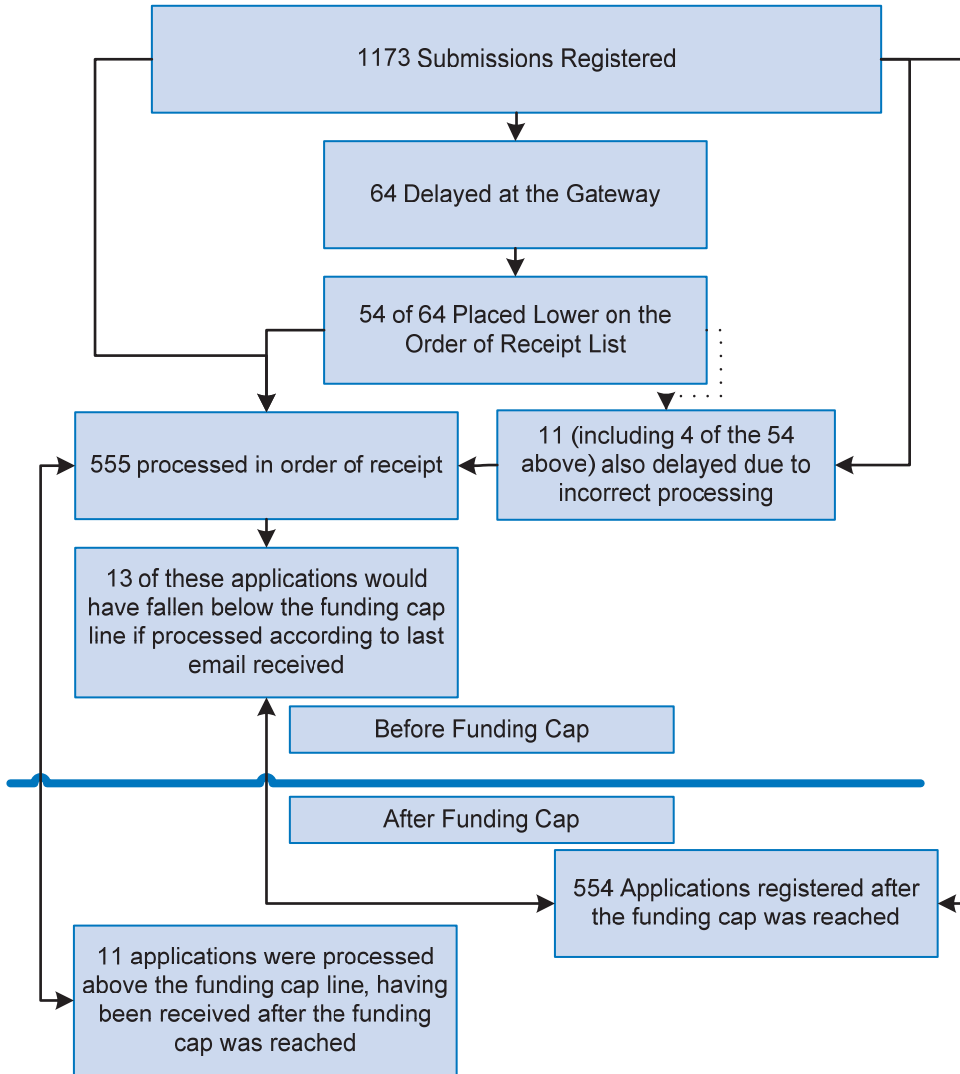
4.13 On the other hand, had the department used the approach set out in the EYQF guidelines, of listing applicants based upon the receipt of a complete application (which might be considered to be when the last email was received), including where an applicant sent more than one email,⁷⁵ this would have resulted in 13 applications that were processed, falling below other applications that had been excluded. The last of these part applications was received after 102 applications were excluded as a consequence of the funding cap being reached.

4.14 The identification of completed applications was also complicated by some applicants making amendments to their applications and resubmitting them in part or full. The guidelines stated that a service that sought to alter or change its application at any time would need to withdraw their initial application and resubmit a new application. However, the department did not apply this rule, resulting in 11 resubmitted applications being approved even though they were submitted after other applications had been excluded due to the funding cap being reached. The last of these approved applications arrived later than 80 other excluded applications.

4.15 An illustration of the receipting process for applications is provided at Figure 4.1.

75 Whether as part of one submission, or to correct or amend an application.

Figure 4.1: Email receipt and the subsequent processing of applications



Source: ANAO analysis.

Other problems with the registration of applications

4.16 Other errors in the receipt process were also experienced by the department. These included:

- the failure to accurately identify where more than one email related to the same application;

- the first submission email of an application was assessed as non-compliant and the second submission email was approved for funding;
- one submission initially assessed as non-compliant was then incorrectly identified as a duplicate of another submission by the same provider;
- two applications, with three submission emails each, were mixed-up to an extent that one application was approved twice and the other was not approved (with the related emails all being assessed as duplicates of the approved application); and
- one application was incorrectly connected to another application, resulting in the original application not being assessed at all.

Assessment of applications

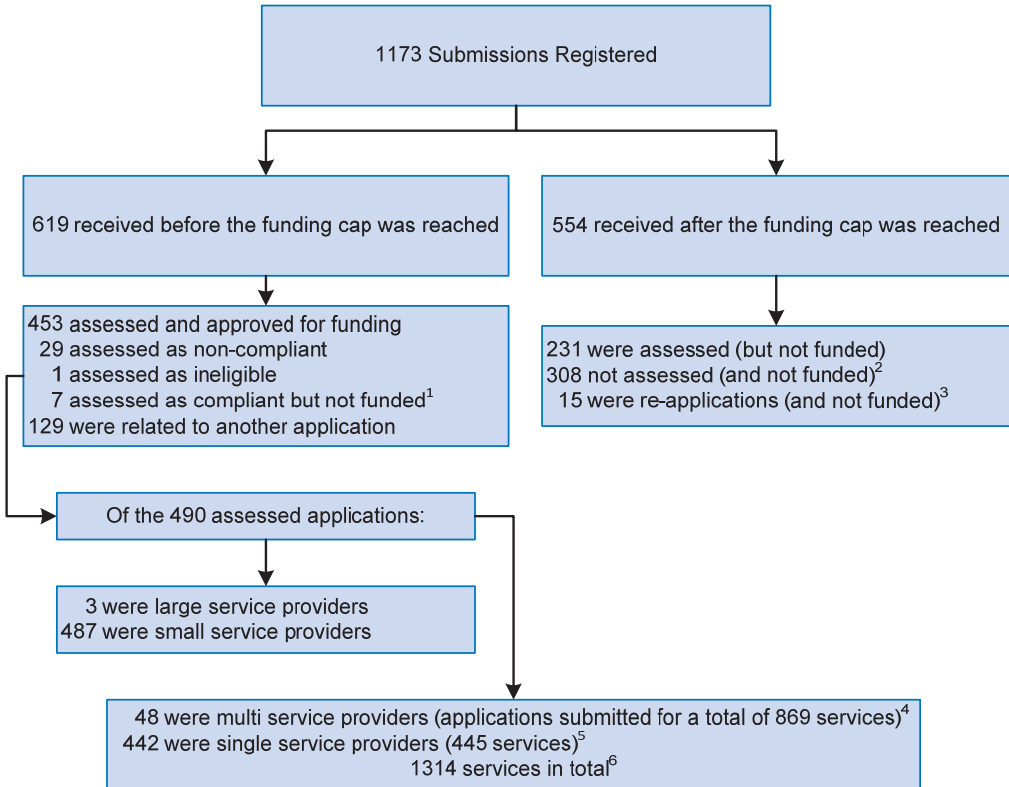
4.17 Demand-driven granting activities can be an effective means of providing intended recipients with efficient access to funding in order to facilitate the achievement of the intended objective. The approach may also be effective in minimising administrative costs. However, the role of eligibility criteria applied in relevant granting activities is of particular importance. In order to be effective, criteria must both reflect the core objective of the granting activity and be capable of appropriate scrutiny and objective validation.⁷⁶

4.18 The EYQF criteria as set out in the program guidelines were divided into three categories: eligibility of the applicant; compliance with documentation requirements; and assessment of the applicant's commitment to the National Quality Framework (NQF). These criteria were in effect threshold criteria and where an applicant could demonstrate they met the requirement they would receive funding, if the organisation was placed high enough in the order of receipt.

4.19 As noted at paragraph 4.6, the department's main record of the application process shows that a total of 1173 submissions were received for funding under EYQF. A breakdown of the main record detailing the type of applications received and how they were assessed is provided in Figure 4.2:

76 ANAO *Implementing Better Practice Grants Administration – Better Practice Guide* December 2013, p 49.

Figure 4.2: Department’s main record of applications received⁷⁷



Source: ANAO analysis from the department’s main record of the EYQF grants process and outcome.

- Notes:
1. Seven applications were re-classified as ‘assessed as compliant’ after the reconciliation process (the reconciliation process is discussed in more detail at paragraph 4.49).
 2. Advice from the department is that all of these applications, including those marked not assessed, did subsequently undergo assessment.
 3. Re-applications are discussed in more detail at paragraph 5.9.
 4. 49 multi-service provider applications (869 individual services) were actually assessed by the department (discussed in more detail at paragraph 4.32).
 5. 444 single service applications were assessed (discussed in more detail at paragraph 4.32).
 6. Due to a number of errors in the main record, a total of 1309 individual services were assessed by the department prior to the funding cap being reached (discussed in more detail at paragraph 4.32).

⁷⁷ Figure 4.2 is a point in time representation of the outcome of the reconciliation process completed after the funding decision was made and letters of offer sent to successful applicants. Consequently, the record does not accurately record the outcome of the original assessment process which was used to support the funding recommendation made to the EYQF delegate.

Eligibility criteria

4.20 To be eligible, an applicant had to be approved under the Child Care Benefit Scheme (CCB) as a provider of Long Day Care (LDC) services and not have an overall rating of 'significant improvement required' under the NQF. Applicants also needed to be compliant under the Education and Care Services National Regulations,⁷⁸ and the *Fair Work Act 2009*.

CCB approved provider status

4.21 Applicants were required to supply their CCB approval number so that the department could verify their approval status. Early assessment of applications identified that a large number of applicants had misunderstood the requirement and provided a number other than the CCB approval number. Consequently, the department revised its approach to cross match applications to those that could be identified on the department's list of CCB approved LDC providers. Overall, one application was assessed as ineligible because the service was not CCB approved. The department excluded one other service after funding negotiations commenced. This service was part of a multi-service application from one provider. In this case all of the services from this provider should have been assessed as ineligible.⁷⁹ The ANAO's review of the assessed applications identified a further nine services connected to five multi-service providers and one single service provider that were not on the department's CCB approved list. While the department advised that further investigations were conducted when an applicant could not be located on the CCB approved list, there was limited evidence of this in records from the assessment process.

Compliance with the national laws and regulations

4.22 The department did not deem any services or providers ineligible due to compliance issues with the National Laws and Regulations⁸⁰, although compliance issues arose with some applications during the course of the assessment process. The department managed these compliance issues on a

78 Available at <<http://www.acecqa.gov.au/national-regulations>> [accessed 2 July 2014].

79 The program guidelines indicate that with respect to multi-service provider applications, an entire application would be ineligible if 10 per cent of the services in an application were not CCB approved LDC services.

80 To assess these criteria the department reviewed information provided by relevant internal data management and compliance areas, and the Fair Work Ombudsman, seeking further information from these areas as required. The substantive assessment of eligibility occurred outside of the documented assessment process and no systematic process or comprehensive record of the eligibility assessment was retained with other assessment records, this was particularly with respect to compliance with the National Laws and Regulations.

case by case basis and concluded that none of the issues identified were significant and all could be monitored through funding agreements. In reviewing the department's records, the ANAO identified 14 services with possible compliance issues. However in approving the applications, the delegate was only advised of issues with eight services. There was no evidence that any of the compliance issues were addressed through the funding agreement process, although the department advised that, for the one provider with a signed funding agreement, compliance issues with five of the provider's services were addressed before the funding agreement was signed.

Compliance criteria

4.23 The compliance criteria established in the guidelines included a requirement to provide a complete and accurate application form and provide all mandatory attachments, with only fully completed applications being assessed. The guidelines stated that a service which sought to alter or change its application at any time would need to withdraw the initial application and resubmit a new application. Applicants were further advised that no additional information would be sought or follow up undertaken with applicants to clarify information provided in applications. The requirements were onerous with some information repeated multiple times. For example, applicants were required to provide details of current staff in the application form, the grants calculator, the Workforce Development Plan (WDP) and the applicant's most recent payroll. Overall, the arrangement was not conducive to a first-in first-served process where applicants were required to submit their applications quickly.

Revision of compliance criteria

4.24 The department formally revised and relaxed some of the compliance requirements. These revisions extended to the department accepting applications that had incomplete application forms or which used the incorrect form and applications where the attachments did not meet the stated requirements.⁸¹ The department decided to adopt what it called a 'substance over form' approach, on the basis that some applications may be substantially completed, even if details were missing. This decision was taken contrary to the program guidelines which state that 'applications must have the checklist completed, and have completed each of the steps, to be eligible for assessment'

81 Applications that were submitted using sample forms provided to applicants prior to the application form being released on 23 July.

and notwithstanding probity advice that highlighted a number of risks, for example, around using sample forms or waiving the requirement to have a complete application. With respect to this last change, the advice provided was that such an approach would put applicants that took additional time to complete their applications correctly at a disadvantage compared to applicants that submitted earlier, incomplete applications.

4.25 The department's approach effectively varied the application process and the mandatory requirements. The assessment teams were required to make judgements about what was required for a complete application. ANAO analysis identified a number of other informal⁸² revisions adopted by the department throughout the compliance checking process including accepting incomplete grant calculators and evidence of a service's employees' support for the NQF which did not include the required statement or did not otherwise meet the documentation requirements. Two further applications were assessed as non-compliant; one for not signing the declaration at the end of the application form and the other for failing to complete the application form. The missing information was in fact provided in both forms, although it was hidden from view; an assessor would have been required to click on the relevant information box of the form to display the information.⁸³

4.26 Due to the degree of revisions, inconsistencies in the application of the requirements in the guidelines and missing documentation, the department's approach to assessing compliance was not uniform. Accordingly, there was only limited assurance that the process applied by the department to identify applications to advance to the next assessment stage was conducted in an equitable, transparent and accountable way.

Assessment criteria

4.27 Applicants were required to demonstrate a commitment to the NQF by providing:

- a statement (at the service level) regarding the collaborative approach adopted in the development of the Quality Improvement Plan (QIP), including identifying the parties that were consulted in the development of the QIP to meet the first of the assessment criteria; and

82 These revisions were not agreed by the delegate.

83 This issue was most likely caused by a software compatibility problem.

- a Workforce Development Plan (WDP),⁸⁴ containing specific information about staff and training. The EYQF guidelines also stated that the strategies in the WDP were to inform the reporting and acquittal processes in the funding agreement.⁸⁵

4.28 The department advised the ANAO that the assessment criteria were ultimately not used⁸⁶ to inform decisions on eligibility of applications and there was no consideration of whether the required content had been provided in line with the guidelines. Rather, only a general consideration was given to whether information had been provided. In instances where it was considered necessary, the department advised that it would make a note to follow-up with a particular applicant in the development of a funding agreement; there is limited evidence indicating that follow up occurred. The funding agreement process is discussed in more detail in chapter 5.

Assessment guidance and revisions to the criteria

4.29 The grants administration framework requires decision makers to make grant decisions in a manner that is consistent with the relevant guidelines. There may be instances where in light of changed circumstances, it may be necessary to waive or amend criteria for a grant activity.⁸⁷ However, in the interests of transparency it is important that stakeholders are informed of amendments in a timely manner through publication of revised guidelines, and that consideration is given to the impact changes may have on applications already submitted.⁸⁸

84 The Workforce Development Plan needed to include information about whether a service met the requirements of the NQF and include details of current staff numbers and their qualifications as well as the number of additional staff required to meet the requirements. In addition the WDP needed to show any qualifications those staff may have acquired at the service over the previous 12 months relevant to the NQF strategies such as upskilling, staff recruitment, professional development relevant to the NQF, and other details of how the service intended to meet and maintain the qualification requirements commencing on 1 January 2014.

85 Other requirements under the two assessment criteria included the provision of information in the application form and attaching specific documents. These requirements were already assessed as part of the application compliance check.

86 The department selected a random sample of applicants to provide a copy the QIP for review as per section 4.3.1 of the guidelines, which were to support the statement about how the QIP was developed. It is unclear how the QIPs provided were used to support the statement about the QIPs development, noting also that no application was excluded after the sample of QIPs were considered.

87 CGGs, op.cit., p. 62.

88 ANAO Better Practice Guide, *Implementing Better Practice Grants Administration*, Canberra, December 2013, p. 52.

4.30 The EYQF guidelines noted that amendments to the guidelines could be made where it was considered necessary.⁸⁹ As noted at paragraph 4.26, after identifying a number of problems with the assessment documentation, the department issued assessors with a series of revisions to the selection process. The department did not issue updated assessment guidance to reflect the revisions, but rather relied on notes and verbal advice to assessors to advise of changes. Five sets of revisions in the assessment process were agreed by the program delegate between 23 and 31 July 2013. Applicants were not advised of the revisions and limited consideration was given to the impact of the changes on applications already submitted.⁹⁰

4.31 The effect of the revisions was that many of the criteria in the EYQF guidelines were nullified. The changes did not exclude applications, but rather, had the effect of making applications that did not meet the original criteria eligible for funding. The assessment teams also made a number of other changes during the course of the grants assessments that were not formally documented or universally applied. These changes included accepting forms that did not tick boxes or indicate yes or no (where the information was not otherwise available), and forms that were not signed by the service's contact.

Assessment and reassessment of applications

4.32 The department registered 1173 submissions between 11:00am on 23 July, when the EYQF application process commenced, and 25 September 2013, when the last recorded email was received (refer Figure 4.2). ANAO analysis of the submissions indicates that the total number of applications assessed up to the point that the EYQF funding cap was reached included:

- 49 multi-service provider applications representing a cumulative total of 869 individual services; and
- 444 single service applications representing 445 individual services (one of the applications related to two services).

4.33 The number of applications assessed has been determined by analysing the approach of the department, taking into account errors in the department's main record as compared to the actual assessment approach for each

89 EYQF guidelines p. 8.

90 Probity advice around the proposed revisions detailing the impacts on applicants was received by the department, see paragraph 4.24 for further discussion.

application. This assessment excludes services which the department initially identified as a duplicate (including in error) and includes where the department has approved the same application more than once.

4.34 The number of revisions in the assessment process (discussed at paragraph 4.30) and difficulties experienced in identifying multiple submission emails (paragraph 4.16) resulted in assessors assessing and reassessing applications multiple times. However, the approach to reassessment was not clearly documented or uniform. Individual assessment sheets were found to contain multiple assessments; of the single service providers, more than 32 per cent were assessed three or more times regardless of whether they had been found to be eligible and compliant in a previous assessment. In addition, there were 232 assessments that did not state what type of assessment had been conducted, 50 assessments that did not identify the name of the assessor, and 79 assessments that did not identify the date of the assessment. While provision was also made to undertake quality assurance processes by checking assessments, these processes were confused with the re-assessment of applications.

Assessment records

4.35 As discussed at paragraph 4.5, applicants that owned or operated more than one child care service could elect to submit a single application on behalf of multiple services. Multi-service provider level assessments were completed for all 49 assessed multi-service providers. However, documentation supporting the individual service level assessments could not be identified for all of these applications. The data in Table 4.2 illustrates the number of assessments identified at the service level for assessed applications; these applications represented 1309 individual services.⁹¹ There was no recorded assessment for 710 services submitted through multi-service provider applications (nearly 82 per cent). These services were part of nine applications.⁹²

91 The total of 1309 services excludes services where the ANAO could not make a determination; namely, the assessments of four single service applications (relating to five separate services). Additionally, the analysis of assessments includes those for applications registered and later connected to another application and for quality assurance processes; it excludes one submission connected to another application where the ANAO could not determine how the department undertook the assessment; and 34 assessments for 20 multi-service provider applications where the assessor did not identify the service the assessment related to are also excluded.

92 The department advised that individual service assessments were not completed for three applications because they were found non-compliant during the multi-service provider assessment stage.

Table 4.2: Number of assessments per service application

| | Number of assessments per service | | | | | | | | |
|--|-----------------------------------|-----|-----|----|----|----|---|---|----|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 15 |
| Number of multi-service provider services | 710 | 133 | 26 | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of single service provider services | 0 | 134 | 162 | 88 | 31 | 17 | 6 | 1 | 1 |

Source: ANAO analysis of EYQF assessment records.

4.36 For the six largest multi-service applications, there was no record kept on the assessment of their services connected to their grant applications.⁹³ This included the two largest providers; the applications for which were made up of 642 and 42 services, with a total funding commitment of \$144.2 million. Identifying the risks associated with these two providers which both had representatives on the EYQF advisory board, the applications were assessed by senior assessors. In approving this first batch of applications (on 26 July 2013), the delegate was advised that the application with the highest funding value had been assessed electronically due to its size (totalling over 5000 pages). The department confirmed that the assessment included a review of all 642 services on a computer screen. However, other than a minute to the delegate, there is no record of a comprehensive service level assessment for this application. The department advised the ANAO that service level assessment sheets were completed for the other five large multi-service provider applications, but copies of these have not been retained in the department’s records. Creating and maintaining appropriate records of assessments is important for reasons of accountability and transparency.

4.37 As noted above, the department maintained a central record of the number of applications received (the main record), which included all of the department’s completed funding assessment records and was intended to provide a comprehensive record of the assessment process and the final assessment outcome (discussed in more detail at paragraph 4.44). However, there were inconsistencies between the information recorded in the main record, the individual assessments, and the information provided to the delegate as part of the recommendation for funding.⁹⁴ In some instances no

93 For one of these five multi-service providers a service level assessment sheet was not completed for one of its services only. A small number of generic service level assessment sheets that were not specific to any of the identified services were completed across these providers.

94 A comparison of the various records of assessment outcomes is included at Appendix 3.

record of an assessment could be identified. More broadly, program documents were also filed inconsistently across multiple locations used by the department. The department made changes to the main record and as a result, no comprehensive record of the original assessment process under the EYQF has been maintained. Consequently, the department is unable to demonstrate that the assessment approach used for EYQF grants satisfied the requirements of the program guidelines and the CGGs.

Funding calculations

4.38 Information contained in the EYQF wage schedule (discussed in more detail in chapter 3) was converted into an Employee Hours and Grants Calculator (grants calculator) and issued as part of the program guidelines. The assessment process used by the department omitted any reference to an assessment of the funding requested or the information in the grants calculator, with the department advising that limited analysis in this respect was undertaken. ANAO analysis indicates that eight per cent of approved applications contained discrepancies between the amount requested and the actual amounts calculated.

Management of assessment teams

4.39 The CGGs advise⁹⁵ that entity staff should develop policies, procedures and documentation as are necessary for the effective and efficient governance and accountability of granting activities. DEEWR had corporate experience in managing grant rounds and was provided with significant additional resources⁹⁶ to manage the implementation of the EYQF in recognition of the volume of assessments and the rapid roll out of the program. While the department promptly put in place the necessary arrangements for the assessments to be conducted, the approach taken was not underpinned by a probity plan and the assessment documentation could have been more consistent with the EYQF guidelines.

Probity considerations

4.40 The CGGs require that when conducting granting processes entities establish transparent processes which help manage misconceptions and the

95 Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Financial Management Guidance No. 3, Canberra, June 2013 (2nd Edition) p 53.

96 The department received a total of \$8.2 million over three years from 2012-13 to manage the EYQF. The allocation for 2013-14 was \$3.4 million comprising 28 full time non-executive level staff.

potential for personal or related gain.⁹⁷ The department considered probity at various stages during the course of implementing the EYQF and it was emphasised in the management of the advisory board. Probity arrangements were put in place for DEEWR staff involved in the assessment process, including conflict of interest declarations. Conflict of interest declarations were also required from providers applying for EYQF grants.

4.41 The probity arrangements for individuals included existing departmental procedures and specific procedures in relation to EYQF. However, the processes and procedures were not fully consistent with each other which increased the risk of inconsistent decision making. The EYQF guidelines indicate in one place that individuals with a potential conflict cannot access information and assess applications where the conflict of interest exists. In one case, a conflict of interest did arise and conflicts of interest were declared by the provider and the staff member concerned. The department advised the ANAO that having considered the declarations and the first-in first-served nature of the program, it was sufficient to exclude the staff member from involvement with the specific application. However, the guidelines also included stronger conflict of interest management processes which indicated that whether the conflict can be avoided or not, the staff member would be excluded from any duty that could be seen to give rise to a conflict of interest. While the guidelines provided two possible management options, applicants could have reasonably expected that their information would not be made available to assessors who had an interest in a competing application. The approach taken posed a risk and the department could have taken more care in the nature of arrangements put in place.

Assessor arrangements

4.42 Twenty-two assessors were allocated to complete the grants assessment task. The assessors (including three senior assessors)⁹⁸ received training and were provided with assessment documentation (instructions and templates assessment sheets) in order to conduct assessments. Although the assessment

97 The CGG's require that entities put in place appropriate mechanisms for identifying and managing potential conflicts of interest for granting activities, and that any conflicts arising be managed in all phases of the grant administration. Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Second Edition, June 2013, p. 58.

98 The department's processes made provision for the quality assurance of a proportion of applications by a senior assessor. However, in practice there was no clear delineation of roles between assessors and senior-assessors.

sheets referenced the eligibility criteria and provided for assessors to note the outcome of the assessment for each grant application, they did not provide for an accurate assessment against each of the EYQF criteria, resulting in some confusion in the assessment process. For example, one criterion—the substantive assessment of compliance with the National Laws and Regulations—was not included in the assessment sheet. Also, two questions on the sheet were poorly phrased resulting in neither a positive or negative response accurately reflecting whether the applicant had met the respective requirements.

4.43 On commencement of the assessment process, after identifying a number of problems with the assessment and application documentation, the department issued assessors with a series of revisions to the assessment process. The department did not, however, update the assessment instructions or templates to reflect the revisions, relying instead on notes and verbal advice.

Assessment outcomes and funding decisions

4.44 A transparent and accountable decision-making process for the award of grant funding includes the obligation on an agency to provide a clear funding recommendation to an approver, and provide sufficient advice as to the basis for a recommendation.

Advice to the delegate

4.45 The Minister agreed to the delegation of the authority to approve the grants under the EYQF to the program manager within the department. On 23 July 2013 the delegate gave FMA Regulation 9 approval to expend \$300 million under the EYQF, with separate approval subsequently being sought for each successful service before entering into a funding agreement. The approval minute set out the basis of the approval including who would be eligible to receive funding and how the funding amount would be allocated in accordance with the Special Account and the EYQF guidelines. The department submitted funding recommendations to the delegate in 23 batched briefs, with the complete funding decision being made across these briefs; the first being approved on 26 July and the last on 2 August.

4.46 An analysis of the final outcome of the assessment process shows that counter to the first-in first-served process set out in the EYQF guidelines, three small provider applications that were not approved for funding were received before the final approved small provider application. The final application was

submitted for approval in batch four, before 365 other small provider applications which were submitted for approval in batches five to 23. The department advised this occurred due to a transcription error whereby the final approved application was listed as having been received in the morning as opposed to the afternoon and therefore submitted for approval in an earlier batch.

4.47 The approval batches advised the delegate of the outcome of the assessment process, but not the assessment process undertaken. That is, the briefs did not refer to the revisions made to the criteria and incorrectly stated that compliant applications were assessed against the assessment criteria (discussed in paragraph 4.28 and 4.31 respectively). As well, there were a number of errors in the approval briefs covering the 23 batches described above, which affected the financial allocations. The delegate, who was also the program manager, was aware of the revisions in the process and of the department's intentions generally. However, in the interests of transparency and accountability, the advice in the briefs should have been an accurate reflection of the application and selection process undertaken.⁹⁹ It would also have been of benefit for the department to have made a clearer funding recommendation to the delegate. Such a funding recommendation would have included identifying the applications recommended for funding and the applications that were being approved subject to funding becoming available within the appropriation.¹⁰⁰

Advice to applicants

4.48 The department sent conditional letters of offer to applicants after they were approved under a given batch, but before all batches were approved. That is, conditional letters of offer for applicants approved in batches 1 to 16 were dated the day before the delegate approved batches 17 to 23 on 2 August 2013. In this respect, the overall funding approved was not verified before advice (including the conditional funding amount) was sent to applicants.

99 ANAO *Implementing Better Practice Grants Administration – Better Practice Guide* December 2013, p 72.

100 *Ibid.* p. 71.

The reconciliation process

4.49 After the initial funding decision was made, the department undertook a reconciliation of the assessment outcomes. This was an important undertaking given the number of applications received and assessed within a limited timeframe during the initial assessment process. Records show the reconciliation started shortly after the delegate signed the final approval on 2 August, with an initial focus on reconciling funding amounts, and was finalised on 27 August 2013.

4.50 The minute states that a number of errors were identified; however, that the overall number was very low compared to the number of applications received. Errors included:

- double counting of funding amounts for some applications and a failure to count the funding amount for other applications;
- incorrect identification of submissions linked to other applications; and
- advice provided in error to one applicant that they had been successful in their application when they had been assessed as non-compliant.

4.51 In seven instances the department determined to re-classify applications not initially recommended for funding as 'assessed as compliant'. These applications were prioritised for funding should any become available (including through the funding agreement negotiation process).

4.52 ANAO analysis identified a small number of additional errors such as mixed applications, incorrect funding amounts, and inaccurately recorded information. These errors also had an impact on the overall outcome, and in at least one instance, compounded an error in the initial process. Specifically one application, which was approved twice due to an assessment error, was not identified in the reconciliation. Rather, the reconciliation identified this application as receiving a conditional letter of offer with a funding offer less than the amount requested. The funding amount for the application was increased as a result, despite the additional amount not relating to this application.

Basis for approval

4.53 Under the Commonwealth's financial framework, promoting the proper use and management of public resources is a fundamental duty of accountable authorities. Both the FMA Act and the PGPA Act operate to place a responsibility on the accountable authority to promote the proper use and

management of public resources in a way that is not inconsistent with the policies of the Australian Government. In a demand-driven, first-in first-served process, the test of whether a spending proposal is consistent with the policies of the Commonwealth is satisfied where eligible and compliant applications (in accordance with criteria documented in the program guidelines) are approved in order of receipt, up to the point that the appropriation is expended.

4.54 The department’s financial controls were not sufficient to support accurate financial approvals and grant offers. The original FMA Regulation 9 approval minute signed by the delegate approved the expenditure of up to \$300 million over two financial years. Analysis of the total funding amount committed by the Commonwealth varies across different records, including the original approval briefs, the attachments to those briefs and the total funding amounts in the letters of offer. An analysis of the various records of total committed funding is provided at Table 4.3 below, which also indicates that the conditional funding offers made to applicants exceeded the available appropriation. As the program was subsequently terminated, only \$62.5 million was paid to applicants as discussed in paragraph 1.14.

Table 4.3: Total funding committed

| Source | Total committed amount |
|---|------------------------|
| Approval briefs to the delegate | \$302,761,881 |
| Total funding amounts identified in the attachments to the approval briefs | \$302,510,881 |
| ANAO calculation of total funding amounts in the attachments to the approval briefs | \$303,174,899 |
| Conditional letters of offer | \$300,219,619 |
| Reconciliation advice on the total funding amount committed (based on the conditional letters of offer) | \$300,221,469 |

Source: ANAO analysis of departmental records.

Conclusion

4.55 DEEWR’s approach to accepting and assessing applications for the EYQF was inadequate and did not ensure fair treatment of applications during the application process. There are inherent risks associated with submission processes under any granting activity, including those that rely on electronic systems. While there are many benefits to adopting an electronic system, there is also a requirement to adequately manage that system ensuring that it is reliable and provides a robust, accountable and auditable trail of decisions and

transactions. In this context, while the department identified some risks associated with the electronic submission process the department did not adequately address subsequent issues that emerged. As a consequence, this affected the delivery of EYQF in accordance with the guidelines to the extent that a number of applications were not processed on a first-in, first-served basis.

4.56 The department was required to identify and assess nearly 620 submissions (within the funding cap) in a compressed timeframe shorter than that originally envisaged, however the resulting assessment process was not consistent with the program guidelines and the CCGs. Furthermore an analysis of the department's assessment of more than half of the services in these submissions was not possible because a record of the specific assessment has not been retained. The initial assessment criteria were included in the guidelines to fulfil the requirement to meet eligibility criteria set out within the approved EYQF policy. However, these criteria were not relevant or proportional when balanced against the requirements of the EYQF and were not used by the department in the assessment process.

4.57 While there may be instances where it is necessary to waive or amend criteria during a grant process, in the context of a program with a high risk of over-subscription, greater emphasis should have been placed on adhering to the documented criteria. Further, upon making such a decision, the changed criteria should be fully documented, potential applicants advised, and processes updated to reflect the changes. The department may have decided that, given the quality of the applications received, the revisions it made were necessary in order to meet the contracted assessment timeframe. However, by choosing to accept applications it considered substantially complete rather than completed according to the guidelines, the selection process was no longer equitable, favouring applicants that submitted incomplete and inaccurate applications ahead of applicants that submitted applications which fulfilled all the original criteria.

4.58 The degree to which the department altered the original assessment process set out the EYQF guidelines had an overall impact on the ability of the delegate to demonstrate that the approvals made in the batched briefs accorded with the guidelines. The advice to the delegate in the batched briefs was also insufficient, resulting in the delegate approving funding in excess of the \$300 million appropriated for the EYQF. Overall, the department recognised that, in light of the constraints around the delivery of the program, there was a significant risk of errors occurring. However, subsequent steps did

not adequately address these risks. Specifically, the total funding approved by the delegate was not determined before applicants were sent conditional letters of offer; measures to address the over-approval of funding and the possible ramifications were never fully considered; and, an accurate reconciliation was not undertaken. The early termination of the program and the revocation of remaining funds offers meant that only \$62.5 million was spent. However, had all the offers for EYQF funding been taken up at the time they were made, which would have required all funding conditions to have been met, the total value of the offers would have exceeded the funds available in the EYQF Special Account.

Recommendation No.1

4.59 To enhance the equity, transparency and accountability of future grant programs, the ANAO recommends that the Department of Education and Training:

- (a) reinforces the obligation to manage all aspects of the grant process in accordance with the approved program guidelines and the Commonwealth Grants Rules and Guidelines;
- (b) when conducting granting activities, adopts eligibility criteria which reflect the core objective of the granting activity and are capable of appropriate scrutiny and objective validation;
- (c) adheres to documented eligibility criteria in line with program guidelines and closely considers the impacts of any proposed changes; any changes adopted should be documented and approved in a manner consistent with the Commonwealth Grants Rules and Guidelines and revisions communicated to applicants and potential applicants; and
- (d) maintains clear and complete records of all decisions and assessments relating to applications, including revisions to criteria.

Department of Education and Training Response:

4.60 *Agreed.*

5. Finalisation of the Early Years Quality Fund

This chapter examines the advice the department provided to applicants after the funding decision was made, the processes followed in developing the funding agreements during the caretaker period, and subsequent variations to funding agreements.

Introduction

5.1 After applicants are approved under a grant program, consideration should be given to announcing the outcome and the provision of feedback to all applicants to support transparency and accountability of the decision-making process. To this extent, the Joint Committee of Public Accounts and Audit has emphasised the importance of providing feedback to applicants as part of grants administration.¹⁰¹

5.2 It is also important that the development and negotiation of grant agreements is effectively administered. Not least to ensure that well drafted, fit-for-purpose funding agreements are entered into that contribute to good governance and accountability.¹⁰² At the completion of the EYQF grant assessment process, 453 grants were approved covering in excess of 1250 child care services, and almost 24 000 employees. This represented around 30 per cent of long day care staff and 20 per cent of services. By close of business 6 September 2013, the day prior to the Federal election, funding agreements had been sent to 1 large provider, Goodstart Early Learning (for \$132 million) and 15 small providers (for a total of \$5 million) covering 11 710 employees. Subsequently, program changes have resulted in the 16 agreements being either varied or terminated. As at 30 June 2014, \$62.5 million had been paid under EYQF.

5.3 In this context, the ANAO examined the:

- advice provided by the department to successful, unsuccessful, after-cap and potential applicants;

101 Joint Committee of Public Accounts and Audit, 2011 *Report 423: Review of Auditor-General's Reports Nos 39 2009-10 to 15 2010-11*, Canberra p.viii

102 Department of Finance and Deregulation, *Commonwealth Grant Guidelines*, Second Edition, June 2013, p. 54.

- EYQF funding agreement process, including the negotiation of the funding agreements during the caretaker period;
- reporting of approved grants; and
- approach to managing funding agreements and conditional offers after the termination of the EYQF.

Announcing grants and feedback to applicants

5.4 Sensitivities can exist around the timing of grant announcements, particularly during an election period.¹⁰³ However, it is important that the announcement of the outcome of a grant program be made as soon as practicable after the funding decision, particularly with a program such as EYQF for which there was a high demand and a limited funding pool. This avoids the risk of potential applicants placing unnecessary resources into applying for a program where no funding is available.

The funding cap

5.5 The department recognised the risk of over-subscription and noted in the program guidelines that advice would be posted to the EYQF website and provided through the Child Care Management System (CCMS) when the funding cap was reached. Providers that had already lodged an application were also to be notified via email as soon as possible that the funding cap had been reached and that their applications would not be assessed. In the event, advice to potential applicants that the cap had been reached was not timely.

5.6 The department recognised that the funding cap had been reached as early as 24 July 2013, and this advice was passed to the delegate, together with a draft message for approval for posting on the web and to be emailed via CCMS informing providers that the indicative cap had been reached. The delegate decided to hold the message pending advice from the Minister's office. However, advice from the Minister's office was that the message should not be released at that time. By the time the delegate agreed to the final funding recommendations (on 2 August), the department noted that it had registered approximately 942 EYQF applications. Although precise figures were not available due to the ongoing processing of applications, the department's

103 ANAO *Implementing Better Practice Grants Administration – Better Practice Guide* December 2013, p. 76.

assessment was the funding cap had been reached when the number of applications had reached 447; well before 2 August. The department again requested approval from the Minister's office to post a message to the web page to advise applicants and potential applicants that the cap had been reached, and no further applications would be processed. A draft message was forwarded to the Minister's office on 3 August, and although the department was of the view that the Minister's office did not need to approve the text of the message, it was not posted to the website at this time on request of the Minister's office.

5.7 Following the issuing of writs for the Federal election on 5 August 2013, the department advised the Minister's office that it proposed to post the message to the website at 4 p.m. that day advising potential applicants that the program was fully committed. However, the department was (on this occasion and then later on other occasions through to late August) unable to obtain agreement from the Minister's office for the message to be released. The department placed itself in a difficult position in electing to refer the decision to release advice of this nature to the Minister. This decision had consequential impacts on the ability of the department to respond accurately to questions from potential applicants about whether to apply. Substantive information about the status of the program was not put on the department's website until the end of October 2013.

Advice to applicants

Successful applicants

5.8 In accordance with the EYQF guidelines, the majority of the 453 successful applicants received advice on the outcome of their application via a conditional letter¹⁰⁴ of offer which was dispatched to them between 27 July 2013 and 2 August 2013. There were a number of variations in the content of the conditional letters of offer, including advice that offers were contingent on the approval of an enterprise agreement containing the EYQF wage schedule, and other sundry details that required confirmation. The letters advised applicants of the total possible funding amount available, recognising that the amount would be reduced pending the provider meeting all conditions set out in the letter. Applicants were provided eight weeks, or until 27 September 2013, to finalise the requisite enterprise agreements, and/or provide other required information.

104 Copies of the signed letters were located in the department's files in respect of all but seven applications, although there is other evidence that these providers were notified.

Unsuccessful applicants

5.9 The EYQF guidelines stated that unsuccessful applicants would receive formal written notification from the department advising them of the outcome of the process, including advice on the assessment criteria that had not been met. The guidelines also stated that unsuccessful applicants may re-apply while funds were available. On 1 August 2013 the department decided to send letters of advice to 17 unsuccessful applicants (one ineligible and 16 non-compliant), however the letters were not sent until 16 August 2013. The letters also included the advice that applicants were invited to reapply by 20 August 2013, although as noted at paragraph 5.6, the department was aware that the funding had been fully expended on 2 August 2013. Due to this advice and the failure to announce that the funding cap had been reached on the EYQF website, 15 of these applicants re-submitted applications.

5.10 A decision was made by the department on 20 August 2013 to send the same letter to the second tranche of 13 unsuccessful applicants. However, the second tranche of unsuccessful applicants never received a formal letter of advice outlining the basis of non-compliance, the department having received advice from the Minister's office that the letters not be sent. Rather, these remaining unsuccessful applicants (along with some others) were sent a letter dated 23 October 2013, eleven weeks after the funding decision was made. The letter advised the applicants of the Ministerial review of the EYQF and stated that no further action would be undertaken with respect to their applications. Throughout this process there was one applicant that did not receive a letter at all due to an error.¹⁰⁵

After-cap applicants

5.11 As noted in Figure 4.2, there were 554 additional submissions registered in the main record that were received after the funding cap was reached. The department provided advice to all but five of these applicants in a letter dated 22 October 2013, also eleven weeks after the funding decision was made. The letter did not provide any information about making a complaint if dissatisfied.

¹⁰⁵ This application was identified as being connected to another application in the main record (although it was assessed as non-compliant by the department and recorded as such in the approval minute).

The funding agreement development and negotiation process

5.12 Funding agreements are used to formalise the provision of Commonwealth grant funding to a grant recipient. The agreement specifies the terms and conditions of the grant, including any reciprocal obligations for the grant recipient. The department's guide to Application Registration, Assessment and Approval Process stated that in processing offers, applications would be prioritised in order, according to the following criteria:

1. Those with an approved Enterprise Agreement (EA).
2. Those with a lodged EA.
3. Those yet to submit an EA.

5.13 Three large provider applications and 450 small provider applications were approved for funding and sent a conditional letter of offer. After the 453 conditional letters of offer were dispatched in early August 2013, the department commenced the detailed work involved in developing the funding agreements, cognisant that the government had entered into caretaker mode on 5 August 2013. Throughout the caretaker period, the department responded to the Minister's office requests for updates at various points. Late in August 2013 the department was requested by the Minister's office to provide a list of all applicants that were ready to proceed to funding agreement. A list of 40 applicants was collated (dated 26 August 2013) which the department had determined had met the conditions of their conditional letter of offer. On 27 August 2013, another list was collated which included 44 applicants, based on updated information.

5.14 There were anomalies between the two lists, which together produced a combined list of 45 applicants. The variances could not be reconciled with the department's records of the assessment process. In particular, one applicant was on the 26 August list, but not the 27 August list although this applicant had a compliant EA at both dates. Two applicants on the department's list did not have an approved EA at either 26 or 27 August which indicates these applicants should not have been on either list. The department was then instructed to prepare funding agreements for each of the 44 applicants on the list of 27 August.

5.15 From these 44 applicants, 16 applicants (15 small providers and one large provider) were selected by the department to enter into a funding agreement. The department did not formally record the reasons for the selection of the

16 applicants, over others which also meet the conditions of funding at the time, and advised the ANAO that these 16 agreements were chosen as they were the most advanced at that stage and could be more easily finalised.

Caretaker period

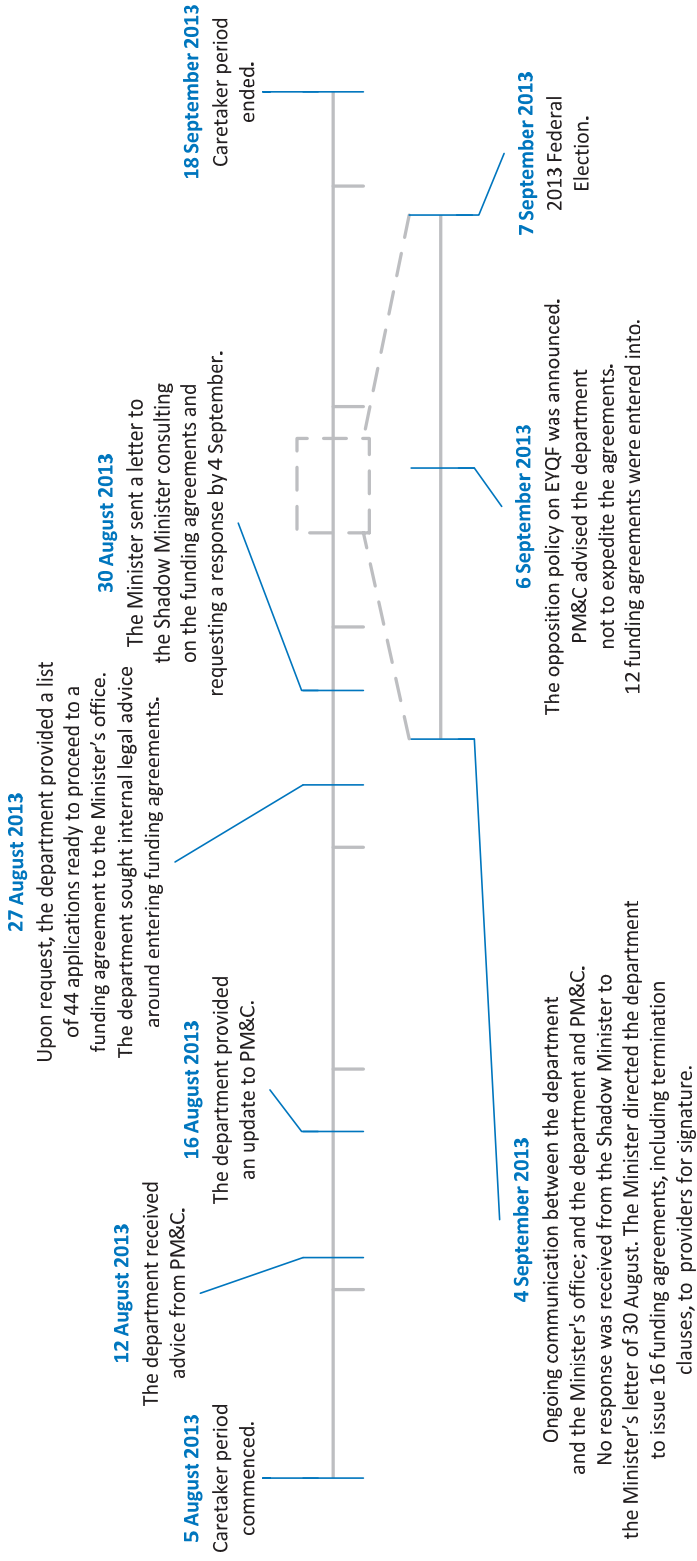
5.16 During the period preceding an election, the government assumes a caretaker role, which begins at the time the House of Representatives is dissolved and continues until the new government is appointed.¹⁰⁶ Throughout this period, the ordinary business of government is expected to continue, however, certain caretaker conventions operate to limit any significant decisions, appointments or commitments a new government would be expected to meet.¹⁰⁷ The conventions are flexible rules that have evolved in response to circumstance, they are generally agreed by all, but may not be codified in precise terms. The conventions that apply during an election include that a government avoids entering major contracts or undertakings unless necessary, in which event the Minister would usually be expected to consult the opposition beforehand.

5.17 In this regard, the Department of the Prime Minister and Cabinet (PM&C) provides information and advice to agencies, but responsibility for observing the conventions ultimately rests with entity heads or Ministers. The caretaker period for the 2013 Federal election began on 5 August 2013, and ended with the swearing in of the new government on 18 September 2013. A timeline of key events in relation to finalising the funding agreements during the caretaker period is at Figure 5.1.

106 The Department of the Prime Minister and Cabinet, *Guidance on Caretaker Conventions*, 2013, paragraph 1.1, available at: <http://www.dpmc.gov.au/guidelines/docs/caretaker_conventions.pdf> [accessed 11 June 2014].

107 *ibid*, paragraph 1.3.

Figure 5.1: Progression of funding agreements and advice received during the caretaker period



Source: ANAO analysis of department documents and correspondence.

5.18 The department approached PM&C for advice on executing all 453 funding agreements early in the caretaker period. PM&C's advice noted that the allocations to the three large service providers were major commitments and that while the payments to small providers may not have constituted major commitments they may have the effect of entrenching the program. If the department was required to proceed during the caretaker period, PM&C noted it would be advisable for the Minister to consult with the opposition prior to finalising any grant payments.

5.19 The Minister agreed to consult with the opposition in relation to the agreements, but DEEWR only focused on the need for agreement in relation to Goodstart Early Learning. Correspondence prepared for the Minister by the department did not make reference to other applicants that the department proposed to enter into an agreement with.

5.20 The Minister's correspondence to the opposition spokesperson on 30 August 2013 indicated the government's intention to execute the funding agreement for Goodstart Early Learning, noting that 'the Government is conscious that this grant is an important and necessary investment in strengthening the early childhood workforce as it is for a provider with 642 services and over 11 000 early childhood educators across Australia.' The opposition spokesperson was asked to respond to the request by 4 September 2013.

5.21 The Minister wrote to the Secretary of DEEWR on 4 September to ask her 'to ensure the expeditious processing of agreements', and to ensure that funding agreements included termination clauses. After receiving advice from PM&C, the department decided to action this letter as if it were a direction. PM&C also advised the department that if the opposition spokesperson failed to respond to the Minister's letter, it could be taken to mean the opposition had no objection, and a decision to continue to send out and process returned agreements in the remaining caretaker period would be defensible, however, advising recipients to expedite their responses would not be considered appropriate.

5.22 After the opposition spokesperson did not respond to the Minister's letter in the time provided, the Minister's office formally instructed the department to execute the funding agreement for Goodstart Early Learning. The Minister's office also requested the department provide funding agreements to the other 15 providers.

5.23 On 6 September 2013, the then Opposition released its policy for *Better Child Care and Early Learning*; announced the Ministerial review of the EYQF; and stated it would honour the payment of funds already contracted at the time of the election.¹⁰⁸ The department, in consultation with PM&C, affirmed that it would continue to process contracts in the normal course of business, but in the event of a change in government, would not enter into any new contracts. Twelve funding agreements were finalised on 6 September 2013, signed by both the Commonwealth and the respective providers; the remaining four agreements were not signed by both parties prior to the election, but were considered to have the same legal status as those that had been formally executed.

Electorate distribution

5.24 The ANAO examined the electoral distribution of the 16 funded services and compared these to the services under the 44 providers identified by the department on 27 August 2013 as having met the conditions of funding.

5.25 The analysis shows the distribution of funding to the services of the 16 providers that signed a funding agreement did not indicate party-political bias. The 44 providers constituted 692 services; the 16 providers with signed funding agreements made up 660 of these services. Of the 692 services, more than 43 per cent were located in electorates held by the incumbent government and more than 53 per cent were in electorates held by the then opposition; the same distribution percentages occur based upon an analysis of the 660 services that were funded. The remainder of services were located in electorates held by independent Members of Parliament and the Greens.

Review of the EYQF

5.26 On coming into office in September 2013, the new government announced a Ministerial review of the establishment and implementation process of the EYQF. The review's final report was released by the Assistant Minister for Education on 10 December 2013, at the same time the decision was made to terminate the EYQF program. In response to the review report, the new government replaced the EYQF with a new professional development program for child care educators. The new program is directed towards assisting

¹⁰⁸ Liberal Party of Australia, *The Coalition's policy for Better Child Care and Early Learning*, September 2013, p. 8.

educators in long day care services to meet the qualification requirements of the NQF and improving practice to ensure quality outcomes for children.

Renegotiation of executed funding agreements

5.27 Upon announcing the decision to terminate the EYQF on 10 December 2013, the Assistant Minister invited the 16 providers that received funding agreements under the EYQF to waive their entitlements under the funding agreement, so the entire \$300 million would be available for the new program. This advice was then overtaken when the government subsequently made a commitment to honour the funding agreements for these 16 providers (for the first year of funding 2013-14), but that no further expenditure would be approved. This meant that the department would only pay the first instalment under each provider's funding agreement. The providers were also asked to vary their funding agreements to be used for professional development rather than wages.

5.28 Of the 16 providers that had received EYQF funding agreements 11 elected not to vary their original funding agreements. Three other providers agreed to use funding for professional development and wages,¹⁰⁹ and the remaining two agreed to use funding solely for professional development. Deeds of variation were prepared for all 16 providers reflecting the variations to the total funding, and for five providers, the amended purposes for which the funding was to be used. Consideration was given to whether the variations to the purposes in the signed funding agreements would be consistent with the Special Account. However, there is little documentation indicating that a similar consideration was given to whether the changes created substantially different arrangements from those agreed to in the original funding agreements approved in accordance with the EYQF guidelines.¹¹⁰ In this context, the objective of the EYQF was to offer higher wages, although provision is also made in the guidelines to use underspent funds for professional development activities.

5.29 In June 2014, ten months after the original agreements were signed; \$62.5 million was paid to 16 providers. This amount was the cumulative total

109 Following an exchange of letters, Goodstart elected to vary its funding agreement. It received the first instalment of the payment due under the EYQF and undertook to make the payment as a lump sum to currently employed educators on its staff.

110 ANAO Better Practice Guide, *Developing and Managing Contracts*, Canberra, February 2012, p. 87.

of the 16 first instalment payments the government agreed to pay under the original funding agreements. Of the \$62.5 million, \$51.3 million was devoted to wages, \$4.9 million to on-costs and \$6.3 million to professional development.

Advice to successful, unfunded applicants

5.30 The department sent a letter dated 20 December 2013 to the remaining approved applicants confirming the advice provided in the 11 October letter that the funding offer was revoked. The letter closed by acknowledging the possible costs incurred by providers in entering into an Enterprise Agreement (a condition of funding under the EYQF) and indicated the willingness of the government to consider a claim for costs, stating that further information would be forthcoming in that respect.

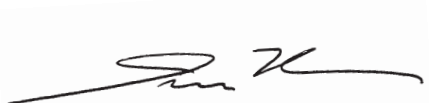
5.31 The EYQF program delegate signed an FMA Regulation 9 funding approval for the reimbursement of costs associated with the development of an enterprise agreement from the EYQF Special Account up to \$4 million on 28 February 2014. The Assistant Minister also approved the reimbursement of costs under the EYQF and the process for doing so on 27 March 2014. The reimbursement funds were to be drawn from the Special Account as per advice received from the Australian Government Solicitor.

5.32 The department advised that it emailed successful applicants and set out on the EYQF website on 31 March 2014 the process for submitting a claim for costs incurred as a result of approved applicants undertaking the process to enter into an Enterprise Agreement. This included what could be claimed and the supporting evidence required. The applicants were to email the EYQF mailbox to receive forms from the department to submit a claim. Department records indicate that 91 claims for reimbursement were received, of which 85 were approved. The remaining claims either did not meet the eligibility requirements or the applicants failed to provide further information to support their claims. The website indicated that claims would be accepted until 12 May 2014; however, the department noted it continued to accept claims after this date, receiving 26 claims post 12 May 2014. The last claim was received on 17 June 2014 and processed on 3 July 2014. As at 18 September 2014, the department's website no longer included information about the reimbursement of costs.

Conclusion

5.33 Following finalisation of EYQF assessments, conditional offers of EYQF grant funding were made to 453 applicants. While these successful applicants were advised promptly about the outcome of the EYQF after the funding decision was reached, the advice to the majority of applicants, including to potential applicants that the funding cap had been reached, was unreasonably delayed. Some unsuccessful applicants received letters of advice suggesting they reapply for funding when the department knew there was no funding available. Re-submitted applications were received from 15 applicants who acted on this advice.

5.34 Ultimately, only 16 successful applicants received funding agreements before the program was ceased. The finalisation of these agreements occurred one day before the Federal election during the caretaker period. Had all 453 successful applicants received funding agreements, the order in which these were negotiated would not have been material. However, the changed circumstances following the commencement of the caretaker period meant that the department was only able to finalise a limited number of agreements. The agreements finalised included one with the largest provider, which accounted for \$132 million. The department subsequently advised that it focused on finalising these 16 agreements as they were the most advanced at that stage and could be more easily finalised.



Ian McPhee
Auditor-General

Canberra ACT
17 February 2015

Appendices

Appendix 1: Entities' Responses



Australian Government
Department of Education and Training

Acting Secretary
Robert Griew

Mr. Andrew Pope
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Pope

Performance Audit of the Administration of the Early Years Quality Fund

Thank you for the opportunity to provide comment on the Australian National Audit Office's proposed audit report on the Performance Audit of the Administration of the Early Years Quality Fund.

The Department agrees with the recommendation and has provided a formal response to the report for inclusion in the report at [Attachment A](#).

As requested, the Department has provided additional commentary including some editorial matters at [Attachment B](#).

If you have any queries regarding the Department's response please contact Mr. David De Silva on (02) 6121 7745.

Yours sincerely

Robert Griew

23 January 2015

Opportunity through learning

50 Marcus Clarke Street, Canberra ACT 2601

GPO Box 9880, Canberra ACT 2601 | Phone (02) 6121 6000

ATTACHMENT A

Department of Education and Training formal response to the Performance Audit of the Establishment, Implementation and Administration of the Early Years Quality Fund

The Department of Education and Training is strongly committed to assisting the early childhood education and care sector attract and retain a skilled and professional workforce.

As observed by the ANAO, the Early Years Quality Fund Program was terminated in December 2013 and replaced with an alternative professional development programme for child care educators in the long day care sector. At the time of responding, 5,038 long day care services were offered funding under that programme to assist educators up skill qualifications and access professional development activities to assist in meeting the qualifications requirements of the National Quality Framework.

The ANAO acknowledges in its report the former Department of Education Employment and Workplace Relations experience in program implementation and the prompt establishment of arrangements to manage the grant process, further noting the challenges imposed by key elements of the policy being made external to the department and the exceptionally tight implementation timeframes set by government.

The audit has identified several areas throughout the implementation process that could have benefited from further development. The Department is committed to continuous improvement and will incorporate key lessons from this report to inform the design and implementation of future programmes.

Department of Education and Training response to the audit recommendation:

Recommendation 1

To enhance the equity, transparency and accountability of future grant programs, the ANAO recommends that the Department of Education and Training:

- a) reinforces the obligation to manage all aspects of the grant process in accordance with the approved program guidelines and the Commonwealth Grants Rules and Guidelines;
- b) when conducting granting activities, adopts eligibility criteria which reflect the core objective of the granting activity and are capable of appropriate scrutiny and objective validation;
- c) adheres to documented eligibility criteria in line with program guidelines and closely considers the impacts of any proposed changes; any changes adopted should be documented and approved in a manner consistent with the Commonwealth Grants Rules and Guidelines and revisions communicated to applicants and potential applicants; and
- d) maintains clear and complete records of all decisions and assessments relating to applications, including revisions to criteria.

Department of Education and Training Response: *Agreed.*



Australian Government

Department of the Prime Minister and Cabinet

ANDREW FISHER BUILDING
ONE NATIONAL CIRCUIT
BARTON

Reference:EC14/1034

Dr Andrew Pope
Group Executive Director
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Pope

Thank you for the opportunity to formally comment on the proposed Australian National Audit Office audit report on the Administration of the Early Years Quality Fund (EYQF).

Our overall response to the proposed audit report for inclusion in the report Summary is provided at [Attachment A](#).

Subject to the inclusion of editorial comments further clarifying PM&C's role in the development of the EYQF at [Attachment B](#), the Department considers that the audit report provides a balanced account of the Department's involvement in the EYQF. My response at [Attachment A](#) assumes the editorial comments will be accepted.

Please contact Ms Tania Ellison, Senior Adviser, Education Section, on (02) 6271 5301, should you wish to discuss.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Rebecca Cross'.

Rebecca Cross
Head of Domestic Policy
22 January 2015

Postal Address: PO BOX 6500, CANBERRA ACT 2600
Telephone: +61 2 6271 5111 Fax: +61 2 6271 5414 www.pmc.gov.au ABN: 18 108 001 191

Attachment A

Response to the ANAO performance audit of the Administration of the Early Years Quality Fund (EYQF)

Summary of the Department of the Prime Minister and Cabinet's formal response

The Department of the Prime Minister and Cabinet (PM&C) considers that the audit report provides a balanced account of the Department's involvement in the EYQF.

PM&C notes the audit report's conclusions and agrees that while decisions on policy are a matter for government, departments should provide frank, comprehensive and timely advice to Ministers. Further, good Cabinet processes are essential to ensure strategic and coordinated policy solutions to Australia's national challenges, and to support the implementation of the Government's priorities.

Appendix 2: Key Features of the Aged Care Compact and the Equal Remuneration Order for Social and Community Services Employees

The Aged Care Workforce Compact

1. Under the aged care workforce compact,¹¹¹ to be eligible for government funding, providers would have been required to negotiate enterprise agreements for workers. Eligibility conditions would have required an employer to phase in (over four years) a three per cent wage increase above the award rate of pay for personal care workers; nine¹¹² per cent for enrolled nurses; and 13 per cent increases for registered nurses. Plus, participating employers would have been required to deliver all workers on enterprise bargaining agreements a minimum pay increase of three per cent per year over four years.

The SACS Equal Remuneration Order

2. Fair Work Australia handed down an equal remuneration order on 1 February 2012, in the form of a percentage rate of increase to be added to the existing rates of pay contained in the award for Social and Community Services (SACS) employees. The result was that the wage of a SACS employee would increase by approximately \$8 000 to \$27 000. To enable employers and funding (state and territory) governments to adjust to the new rates, the increases are being implemented in equal instalments over an eight year period that commenced on 1 December 2012 and will conclude on 1 December 2020.

111 The Aged Care Workforce Compact was halted by the Government in September 2013.

112 Pay increase figures in this paragraph have been rounded to the nearest whole number.

Appendix 3: Application and Assessment Records

| Assessment outcome | Number of applications | | |
|---|------------------------|-----------------|------------------------------|
| | Assessment sheets | Approval minute | Main record (reconciliation) |
| Eligible and compliant | 435 | 458 | 453 |
| Ineligible and non-compliant | 33 | 32 | 30 |
| Application related to another submission | 128 | 121 | 129 |
| Assessed as compliant | N/A | N/A | 7 |
| After-cap (not assessed) | 1 | 1 | 3 |
| Unclear/Missing | 25 | 10 | N/A |
| TOTAL | 622 | 622 | 622 |

Source: ANAO analysis of department records.

Note: The data relates to the 622 submissions recorded on the department's main record as having been received before the funding cap was reached and includes three additional small provider applications received and assessed before the final application approved (but recorded on the main record as being received after the cap was reached).

1. The above table does not take account of errors in the process identified by the ANAO. Also, many of the numbers in the table are interchangeable as a result of re-assessments throughout the process. Although, where the ANAO has been able to undertake an analysis of the applications, the assessment sheets, the approval and reconciliation mainly record a consistent outcome.
2. The basis for the final outcome is generally not recorded, for example while the reconciliation brief (which is reflected in the main record) identified the changed status of some applications, the basis for this change is limited to the fact that an error was identified and a treatment applied. With regard to the applications identified as unclear and or missing, the ANAO could either not determine the decision of the department in relation to these applications through the assessment records, or the approval batch did not identify the applications and/or did not clearly state the status of the application.

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