Introduction

Background to the review

1.1 The Joint Committee of Public Accounts and Audit (JCPAA) has a statutory duty to examine all reports of the Auditor-General presented to the Australian Parliament and report the results of its deliberations to both Houses of Parliament. In selecting audit reports for review, the Committee considers:

- the significance of the program or issues raised in audit reports
- the significance of audit findings
- the arguments advanced by the audited agencies
- the public interest arising from the report

1.2 On 5 March 2015, the Committee considered Australian National Audit Office (ANAO) performance reports Nos 1-23 of 2014-15. The Committee selected three reports for review and scrutiny at public hearings, including Audit Report No. 23 (2014-15) *Administration of the Early Years Quality Fund*, Department of Education and Training, Department of Finance and Department of Prime Minister and Cabinet.

---

The Committee’s report

1.3 This report of the Committee’s review of Audit Report No. 23 (2014-15) draws attention to key issues raised in the report, as well as at public hearings and in agency submissions. The report is structured as follows:

- Chapter 1: Overview of ANAO report, including the audit conclusion, and audit recommendation and agency response
- Chapter 2: Committee review
- Chapter 3: Committee comment

1.4 The following appendices provide further information:

- Appendix A — List of submissions
- Appendix B — List of public hearings and witnesses

1.5 This report can usefully be read in conjunction with the ANAO report.

Audit report overview

1.6 In March 2013, $300 million was committed 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 for child care workers for a period of two years. The grants were made available to providers on a first-in first-served basis, and an advisory board comprising employer and employee representatives was established to provide advice on the operation and implementation of the fund. Small providers (1-15 services) were allocated a pool of $150 million and large providers (16+ services) were allocated the remaining $150 million. The Early Years Quality Fund Special Account Act 2013 came into effect on 1 July 2013.

1.7 The EYQF was developed within the context of the National Quality Framework requiring a significant increase in worker qualifications and reduction in child to staff ratios and the Productivity Commission’s 2011

---

2 ANAO, Audit Report No. 23 (2014-15), Administration of the Early Years Quality Fund, p. 14. (‘Long day care’ is a child care service providing all day or part-time care at a child care centre for children aged 0 to 5 years, p. 10.)

3 The first-in first-served approach was a demand-driven approach to allocating EYQF grants under which applicants meeting the eligibility criteria would receive funding until all funding was allocated.


report into the Early Childhood Workforce. The Commission found that 15,000 more workers would likely be required and that supply would respond slowly to the growing demand. The EYQF was also being developed in anticipation of an equal remuneration case before the Fair Work Commission.

1.8 Following the 2013 Federal election, the incoming Government reviewed EYQF and replaced it with a new professional development program for child care educators, using uncommitted funds from EYQF. Following the release of the review, Mr Alex Hawke MP wrote in December 2013 to the Auditor-General requesting that an audit of EYQF be considered. The Auditor-General agreed that, in light of the matters that had been raised, a performance audit would be conducted, with the audit commencing in March 2014.

1.9 EYQF was implemented by the then Department of Education, Employment and Workplace Relations (DEEWR), with the then Department of Education—now the Department of Education and Training (Education and Training)—taking carriage of the program following the 2013 Federal election. From 23 December 2014, early childhood programs, including the program area relating to the delivery of the former EYQF, were transferred to the Department of Social Services (DSS). However, the ANAO directed its audit recommendation to Education and Training as the recommendation concerned improvements to that department’s future administration of grants programs generally based on its past administration of EYQF. The Department of the Prime Minister and Cabinet and the Department of Finance were involved in the development of EYQF and also included in the audit.

Audit conclusion

1.10 The ANAO’s overall conclusion was as follows:

7 ANAO, Audit Report No. 23 (2014-15), p. 17. PricewaterhouseCoopers was commissioned by the then Department of Education to conduct a review of EYQF—see Ministerial Review of the EYQF: Final Report, 12 November 2013.
9 The ANAO report refers to DEEWR, unless otherwise noted—see Audit Report No. 23 (2014-15), p. 18.
10 From 23 December 2014, the then Department of Education became the Department of Education and Training.
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 advice 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.13

1.11 The ANAO further found that:

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 …

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.¹⁴

Audit recommendation and agency response

1.12 Table 2.1 sets out the recommendation for ANAO Report No. 23 and Education and Training’s response.¹⁵

<table>
<thead>
<tr>
<th>Table 2.1 ANAO recommendation, Report No. 23 (2014-15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

¹⁵ For details of Education and Training’s response to the ANAO recommendation, see ANAO, Audit Report No. 23 (2014-15), p. 28. PM&C also provided a response to the report, see p. 28.