
The Parliament of the Commonwealth of Australia

Report 454

Early Years Quality Fund

Review of Auditor-General Report No. 23 (2014-15)

Joint Committee of Public Accounts and Audit

February 2016
Canberra

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Foreword

On 5 March 2015, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to review Australian National Audit Office (ANAO) Report No. 23 (2014-15), *Administration of the Early Years Quality Fund*.

The Early Years Quality Fund (EYQF) was established in March 2013 to provide 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 to be made available to providers on a first-in first-served basis, and an Advisory Board comprising employer and employee representatives was established to provide implementation advice. By close of business on 6 September 2013, the day before the Federal election, funding agreements had been sent to one large provider, Goodstart Early Learning, for \$132 million, and 15 small providers, for a total of \$5 million. Goodstart, which was on the Advisory Board, was the first large provider to lodge a completed application and received the largest allocation of EYQF funding (\$132 million was 96% of the \$137 million allocated to all providers). The program was initially implemented by the former Department of Education, Employment and Workplace Relations, with the Department of Education and Training later taking carriage of the program.

In its audit, the ANAO noted that the program's funding cap of \$300 million, which was estimated to only cover around 30 per cent of all long day care workers, meant the program would most likely be oversubscribed – and it eventuated that this funding cap was reached less than 13 hours after the application process commenced. The ANAO found that the department did not provide frank, comprehensive and timely advice to its Minister on the program's implementation risks. However, it noted that this role was made more challenging because many of the key elements of the EYQF policy were developed by advisers in Ministers' offices and then settled through Ministerial correspondence rather than through more conventional Cabinet processes.

In addition, the ANAO found that key risks evident in the program's design – in particular, the first-in first-served approach – were compounded by inadequacies in the department's subsequent administration of the program. In short, the

department did not demonstrate a disciplined approach to implementation that satisfied the requirements of the then Commonwealth Grant Guidelines.

The Committee carefully examined all of these matters over a series of public hearings. At these public hearings, the Committee also raised a number of probity and transparency concerns regarding the EYQF.

We have made seven recommendations directed at these matters, to encourage better practice grants administration.

I thank Committee members for their deliberation on these matters.

Hon Ian Macfarlane MP
Chair



Membership of the Committee

Chair Hon Ian Macfarlane MP (from 15 Oct 2015)

Dr Andrew Southcott MP (to 15 Oct 2015)

**Deputy
Chair** Mr Pat Conroy MP

Members Hon Anthony Albanese MP

Senator Cory Bernardi

Ms Gai Brodtmann MP

Senator Katy Gallagher (until 12 Nov 15)

Mr Andrew Giles MP

Senator Chris Ketter

Dr David Gillespie (from 19 Oct 2015)

Senator Jenny McAllister (from 12 Nov 15)

Dr Peter Hendy MP (to 12 Oct 2015)

Senator Bridget McKenzie

Mr Craig Laundry MP

Senator Dean Smith

Mrs Jane Prentice MP

Mr Angus Taylor MP

Mr Ken Wyatt MP (to 12 Oct 2015)

Committee Secretariat

Secretary	Mr David Brunoro (from 29/9/15) Ms Susan Cardell (to 29/9/15)
Inquiry Secretary	Dr Kate Sullivan
Administrative Officer	Ms Tamara Palmer



Terms of reference

On 5 March 2015, the JCPAA resolved to review the following audit report in detail:

- Audit Report No. 23 (2014-15) *Administration of the Early Years Quality Fund*¹

¹ The Committee tabled *JCPAA Report 449* on Audit Reports Nos 19 and 20 on 11 August 2015.



List of recommendations

Recommendation 1

The Committee recommends that:

- the Department of Finance amend references to demand-driven grant programs in the Commonwealth Grants Rules and Guidelines to explicitly refer to the implementation risks of a 'first-in first-served' approach, as outlined in ANAO Report No. 23 (2014-15) and the Committee's report
- the Australian National Audit Office also consider updating its guide on *Implementing Better Practice Grants Administration* to reflect this point

Recommendation 2

To encourage more effective departmental advice to ministers on program implementation risks, the Committee recommends the Department of Finance amend the Commonwealth Grants Rules and Guidelines to specify that, where a method other than a competitive merit-based selection process is planned to be used, officials also document, in the policy design phase:

- how the approach has been developed
- how implementation considerations have been taken into account in the policy design
- that a risk management plan has been completed for the proposed process, including on program implementation risks and opportunities to mitigate those risks where possible

The above matters should also be included in departmental ministerial advice.

Recommendation 3

The Committee recommends that the Australian National Audit Office consider including in its schedule of performance audits priority follow-up audits of the effectiveness of grants program administration by the Department of Education and Training.

Recommendation 4

The Committee recommends that the Department of Education and Training report to the Committee, no later than six months after the tabling of this report, on its progress towards implementing the Auditor-General's recommendation in ANAO Report No. 23 (2014-15), including details of staff training in this area and planning for grants program implementation risks.

Recommendation 5

The Committee recommends that the Department of Finance and the Australian National Audit Office (ANAO) work together to strengthen the Commonwealth Grants Rule and Guidelines (CGRGs) and update and expand the *Implementing Better Practice Grants Administration* guide to reflect the Committee's findings in this report, and also the ANAO findings in Report No. 23 (2014-15). In particular:

- the CGRGs should state that it is not advisable to include, as members on a grants program advisory board, prospective applicants for that grants program
- the *Implementing Better Practice Grants Administration* could:
 - ⇒ more clearly set out Commonwealth probity principles for grants administration, particularly in terms of advisory boards and departments ensuring transparent, equitable and well-documented processes
 - ⇒ contain a new section on 'Probity and transparency', which also includes best practice information relevant to advisory boards and proxy arrangements
 - ⇒ outline how the ANAO approaches probity and transparency in conducting audits and defining its audit scope and approach

Recommendation 6

The Committee recommends that, where probity concerns have been raised about a matter in the lead-up to an audit (such as in review reports and/or parliamentary reports), the Australian National Audit Office consider:

- providing a clear statement on probity matters, outlining any probity findings and the Auditor-General's powers in such matters, in the introductory section of its audit reports
- clarifying its audit scope and approach in relation to:
 - ⇒ stakeholders that have and have not been included in the 'Audit scope', such as advisory board members and program stakeholders, and how the Auditor-General's powers apply to these groups and individuals
 - ⇒ what has and has not been included in the 'Audit approach'

Recommendation 7

The Committee recommends that the Department of Prime Minister and Cabinet update its *Guidance on Caretaker Conventions* to clarify what constitutes 'appropriate consultation' with the Opposition on grants administration matters under the caretaker conventions, including with reference to means of correspondence (post, email, telephone), correspondence address (Parliament House offices and electorate offices over election periods) and specifying officials document any follow-up.