

The Auditor-General
Audit Report No.7 2012–13
Performance Audit

Improving Access to Child Care—the Community Support Program

Department of Education, Employment and Workplace Relations

Australian National Audit Office

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Canberra ACT
3 October 2012

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Education, Employment and Workplace Relations 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, and the accompanying brochure, to the Parliament. The report is titled *Improving Access to Child Care—the Community Support Program*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<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

AUDITING FOR AUSTRALIA

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Acronyms

ABS	Australian Bureau of Statistics
ANAO	Australian National Audit Office
ARIA+	Accessibility/Remoteness Index of Australia Plus
CCB	Child Care Benefit
CCMS	Child Care Management System
CCR	Child Care Rebate
CCSSP	Child Care Services Support Program
CGGs	<i>Commonwealth Grant Guidelines</i>
CSP	Community Support Program
DEEWR	Department of Education, Employment and Workplace Relations
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FDC	Family Day Care
Finance	Department of Finance and Deregulation
FOFMS	FaHCSIA Online Funding Management System
IHC	In-Home Care
LDC	Long Day Care
NMS	Non-mainstream Services
NQF	National Quality Framework
OCC	Occasional Care
OSHC	Outside of School Hours Care
PBS	Portfolio Budget Statements
RTAG	Regional Travel Assistance Grant
SEIFA	Socio-Economic Indexes for Areas

Glossary

Child Care Benefit	A payment made by the Australian Government to families to assist with the cost of child care.
Child Care Rebate	A payment made by the Australian Government, additional to the Child Care Benefit, to assist eligible working families with 50 per cent of the out-of-pocket cost of child care, up to a maximum amount per child per year.
Entitlement	An entitlement is a right to a particular payment or benefit, creating an obligation on the Australian Government to provide the entitlement if the relevant criteria are satisfied.
Family Day Care	Family Day Care is a form of child care involving networks of Family Day Care educators who provide flexible care and developmental activities in their own homes for other people's children.
Formal child care	A formal child care service is one that is approved by the Australian Government so that eligible parents can receive government funding to assist with the cost of child care.
Grant	<p>An arrangement for the provision of financial assistance by the Australian Government:</p> <ul style="list-style-type: none">• under which public money is to be paid to a recipient other than the Australian Government;• which is intended to assist the recipient achieve its goals;• which is intended to promote one or more of the Australian Government's policy objectives; and• under which the recipient is required to act in accordance with any terms and conditions specified in the arrangement.
In-Home Care	In-Home Care is a form of child care where an approved carer provides care in the child's home. In-Home Care places are capped and are allocated to services by the Australian Government.

Long Day Care	Long Day Care is a centre-based form of child care service. Long Day Care services provide all-day or part-time care for children of working families and the general community (services may cater to specific groups within the general community).
National Quality Framework	The National Quality Framework aims to raise quality and drive continuous improvement and consistency in education and care services through: a national legislative framework; a National Quality Standard; a national quality rating and assessment process; and a new national body called the Australian Children's Education and Care Quality Authority. The National Quality Framework took effect on 1 January 2012. Requirements such as staff qualifications, educator-to-child ratios and other key staffing arrangements will be phased in between 2012 and 2020.
Occasional Care	Occasional Care is a centre-based form of child care. Occasional Care services provide care which allows parents to meet their work related and non-work related commitments. Families can access Occasional Care regularly or irregularly.
Outside of School Hours Care	Outside of School Hours Care services provide care before and/or after school, and/or care during school vacation time. Some services may also provide care on pupil-free days during the school term.

Summary and Recommendations

Summary

Introduction

1. The Australian Government established the Community Support Program (CSP) during 2004 to improve access to child care, especially in areas where the market would otherwise fail to provide services. The Department of Education, Employment and Workplace Relations (DEEWR) administers the CSP on behalf of the Australian Government.¹

2. Access to high-quality and affordable child care can be an important factor in a parent's decision to remain in or return to the workforce. There are a variety of factors which affect access to child care. These include the geographic proximity of services to parents' work or home, the availability of places at existing services, the availability of alternate care types and the cost of accessing care.

3. During the quarter ending June 2011, 964 000 children attended formal² child care in Australia, representing more than 25 per cent of Australians aged 0–12. These children attended a total of 14 441 approved child care services, of which there are several different service types. As at June 2011, approximately 60 per cent of children in child care attended Long Day Care (LDC), approximately 30 per cent attended Outside of School Hours Care (OSHC), and approximately 10 per cent attended Family Day Care (FDC).³ In addition, in June 2011, the Australian Bureau of Statistics (ABS) estimated that parents of 148 600 children had an unmet need for formal child care. Of these,

¹ On its commencement in 2004, the CSP was administered by the then Department of Families and Community Services. Responsibility was transferred to DEEWR in December 2007 following Machinery of Government changes.

² A formal child care service is one that is approved by the Australian Government so that eligible parents can receive government funding to assist with the cost of child care.

³ Department of Education, Employment and Workplace Relations, February 2012, *Child Care Update, June Quarter 2011*, p. 2.

LDC was mainly required for 48 per cent of the children and OSHC was mainly required for 34 per cent.⁴

4. There are three main forms of assistance available to the different types of formal child care services through the CSP. These are establishment, sustainability and regional travel assistance. In 2011–12, \$104 million in CSP funding supported 12 per cent of the total number of formal child care services in Australia.

5. Under the CSP, payments are made to providers of child care for services that meet specified eligibility criteria. These criteria differ for establishment, sustainability and regional travel assistance, and according to the type of child care. Similarly, payment rates vary for each assistance and child care type. The eligibility criteria and payment rates depend on a range of factors, including the remoteness of a service and the number of child care places utilised.

6. The CSP is a component of Australian Government funding provided directly to child care services, at an estimated total cost of \$327 million in 2011–12. In addition, the majority of Australian Government child care funding supports eligible families through the Child Care Benefit and Child Care Rebate, at a combined estimated cost of some \$4.2 billion in 2011–12.⁵

Audit objective and scope

7. The audit objective was to assess the effectiveness of DEEWR's administration of Community Support Program funding. The three high level criteria used to make this assessment were that DEEWR:

- effectively planned for program delivery;
- soundly managed program delivery; and
- effectively monitored and reported on program performance.

⁴ Australian Bureau of Statistics, May 2012, *4402.0 – Childhood Education and Care, Australia, June 2011*. There is no clear trend in the estimated unmet need for child care. In 2008 and 2005, the estimated number of children with an unmet need for formal child care was 90 000 and 188 400, respectively. Australian Bureau of Statistics, October 2009, *4402.0 – Childhood Education and Care, Australia, June 2008*, and November 2008, *4402.0 – Child Care, Australia, June 2005*.

⁵ Department of Education, Employment and Workplace Relations, *Portfolio Budget Statements 2012–13*, pp. 36 and 38.

8. In 2010–11, the ANAO audited the effectiveness of DEEWR's administrative arrangements for the delivery of two types of Indigenous child care services through CSP payments.⁶ This audit focuses on CSP payments made to formal child care providers.

Overall audit conclusion

9. Through the Community Support Program (CSP), the Australian Government contributes to the establishment and operating costs of child care services so as to improve access to child care. The program aims to focus support in areas where the market would otherwise fail to provide services. In 2011–12, under the CSP, DEEWR provided a total of \$104 million to help providers establish and/or operate over 1700 formal child care services. The child care service providers interviewed by the ANAO emphasised the importance of CSP funding to their ongoing provision of quality child care services to communities.

10. DEEWR's administration of delivery arrangements for the CSP funding was generally sound. DEEWR had effective processes in place to assess the eligibility of applicants in a timely fashion and payments made under the program and examined by the ANAO were accurate and timely. In relation to program monitoring, provider reporting arrangements have achieved a reasonable balance between the level of assurance obtained from child care providers on their service delivery, and the associated workload for those providers and DEEWR. DEEWR has also continued to improve program delivery arrangements in response to a series of reviews.

11. While the administration of delivery arrangements has been generally sound, DEEWR has not evaluated the effectiveness of the program's design in improving access to child care since assuming responsibility for the program in 2007. During this period, DEEWR has maintained the CSP eligibility criteria and payment rates used to target funding, and the child care sector has continued to expand with increasing demand for places.⁷ In this context, the

⁶ The two types of Indigenous child care services were Multifunctional Aboriginal Children's Services and Crèches. ANAO Audit Report No.8, 2010–11, *Multifunctional Aboriginal Children's Services (MACS) and Crèches*.

⁷ The number of children using formal child care services in Australia has increased from 804 000 in the September quarter 2005, to 964 000 in the June quarter 2011. Similarly, the number of child care services rose from 10 400 in the September quarter 2005, to 14 400 in the June quarter 2011.

majority of CSP funding to formal child care for 2011–12 (approximately 71 per cent) was allocated to support the sustainability of one type of child care—FDC, which accounts for approximately 10 per cent of all children in formal care. In contrast, 21 per cent of CSP funding was allocated to the two main types of care—LDC and OSHC, which account for approximately 90 per cent of all children in formal care.⁸ While there are a range of factors which influence access to child care, these points suggest a need for DEEWR to assess whether the program’s settings remain appropriate for achieving the greatest gains in relation to the program objective. Having reviewed the program’s settings, DEEWR should develop suitable performance measures as a basis for its ongoing assessment of the program’s performance.

12. The ANAO has made two recommendations directed towards DEEWR evaluating and strengthening the effectiveness of CSP funding.

Key findings by chapter

Chapter 2: Planning for program delivery

13. As CSP funding is available to only a small proportion of all formal child care services (12 per cent in 2011–12), it is important the funding is appropriately targeted so as to improve access to child care. Access to child care can depend on a number of factors, such as: the geographical access to the service (the proximity of a service to a parent’s home or work); the availability of places at existing services; the choice of care type available; and the cost of care. However, DEEWR has not identified which of these factors the program aims to address. Furthermore, DEEWR has not analysed the child care market, which would involve identifying the areas where the market would fail to meet child care needs without CSP funding. DEEWR could clarify its approach to achieving the program objective through the development of an explicit program strategy which gives appropriate consideration to these factors.

14. In establishing CSP governance arrangements, DEEWR has clearly articulated the respective administrative responsibilities of its national and state and territory offices, developed and made publicly available detailed program guidelines and eligibility criteria, and assessed program risks.

⁸ In addition, as at June 2011, over 80 per cent of estimated unmet needs for child care mainly related to LDC and OSHC.

However, there would be merit in DEEWR updating its program guidelines, including to accurately reflect current payment rates and provider reporting arrangements. In addition, DEEWR's risk management approach could be further strengthened by considering key risks such as the introduction of the National Quality Framework⁹, and by implementing, where appropriate, identified risk treatments.

Chapter 3: Delivering the program

15. DEEWR has built awareness of the CSP through publicly available guidance, and by advising child care providers about the program as part of general child care approval processes. In addition, the CSP application processes were suitably designed and provided relevant information for DEEWR to make eligibility assessments.

16. For a sample of provider applications and funding agreement files, DEEWR's assessments of eligibility appropriately recommended services for funding in a timely fashion. There would, however, be merit in DEEWR strengthening its documentation of service assessments in some areas. These include providing better visibility that all of the CSP's universal eligibility requirements were checked, identifying who conducted the assessment, and when it was completed.

17. A funding agreement had been completed for all of the sampled files where the service was eligible for CSP assistance. The ANAO tested the accuracy of payments made to LDC services¹⁰, finding that the overwhelming majority of payments either aligned with amounts as per the program guidelines, or differed from those amounts for appropriate reasons.

⁹ The National Quality Framework aims to raise quality and drive continuous improvement and consistency in education and care services. The framework began to take effect on 1 January 2012 with key requirements being phased in over time. Importantly, the framework requires higher educator-to-child ratios, higher qualified FDC and LDC service staff, and more stringent standards for the physical environment of child care services. These requirements will have implications for many services, including those in receipt of sustainability assistance.

¹⁰ The ANAO assessed LDC payments because payment amounts could be readily compared to 'allowable amounts' as per the funding agreements, due to the stepped nature of payment amounts.

Chapter 4: Monitoring and reporting the performance of the program

18. For the CSP, DEEWR has compliance processes which primarily rely on self-reporting by child care providers. DEEWR uses providers' reports to monitor their adherence to the terms and conditions of the funding agreements. In particular, larger providers are required to provide an audited financial acquittal to provide assurance that program funding is spent appropriately. Over time, DEEWR has streamlined provider reporting arrangements and achieved a reasonable balance between the level of assurance obtained from provider reports, and the associated workload for those providers and DEEWR.

19. In overseeing delivery of the program, DEEWR monitors the number of services receiving assistance and program expenditure—an important consideration given the demand-driven nature of the program. However, there is a need for DEEWR to establish performance measures which directly address the program's objective, and to use those measures to monitor and evaluate the program's performance. DEEWR could also consider the potential benefits of conducting a formal program evaluation, to contribute to a better understanding of the CSP's effectiveness. Improvements in these areas would support DEEWR's child care policy advice, and its public reporting on the program.

Summary of agency response

20. The proposed report was provided to DEEWR for formal comment. The department provided the following response:

The Auditor-General's report acknowledges the effective administration of the Community Support Program (CSP) and notes the continued improvements implemented by DEEWR in response to recent program reviews.

The Department acknowledges the considerable shifts in the child care sector since it assumed responsibility for the CSP in 2007, and that it is timely to review the targeting of CSP funding. Implementation of the report's recommendations will assist the development of the child care market in the Australian community and provide a sound basis for future program evaluation.

21. DEEWR agreed with the two recommendations in this report. DEEWR's responses to the recommendations are shown in the body of the report immediately after each recommendation.

Recommendations

The ANAO has made the following recommendations directed towards DEEWR evaluating and strengthening the effectiveness of CSP funding. The report reference and abbreviated departmental response are included below, with DEEWR's full response to the recommendation included in the body of the report.

Recommendation No. 1
Para 2.19 To support the achievement of the objective of the Community Support Program, the ANAO recommends that DEEWR:

- analyse the child care market, including the areas where the market would fail to meet child care needs without Community Support Program funding; and
- review the appropriateness of the current eligibility criteria and payment rates in light of this analysis.

DEEWR response: *Agreed*

Recommendation No. 2
Para 4.42 To monitor and evaluate the effectiveness of Community Support Program funding, the ANAO recommends that DEEWR develop performance measures that directly address the program objective.

DEEWR response: *Agreed*

Audit Findings

1. Introduction

This chapter provides background on child care in Australia and introduces the Community Support Program. The chapter also outlines the audit approach.

Child care in Australia

1.1 Access to high-quality and affordable child care can be an important factor in a parent's decision to remain in or return to the workforce. For example in 2011, the Australian Bureau of Statistics (ABS) estimated that nearly 80 per cent of parents placed their children in formal¹¹ child care for work-related reasons.¹² During the quarter ending June 2011, 964 000 children attended formal child care in Australia, representing more than 25 per cent of Australians aged 0–12.

1.2 Child care is available through several different service types. As at June 2011, approximately 60 per cent of children in child care attended Long Day Care (LDC), approximately 30 per cent attended Outside of School Hours Care (OSHC), and approximately 10 per cent attended Family Day Care (FDC). In addition, less than one per cent of children attended In-Home Care (IHC) or Occasional Care (OCC). A total of 14 441 approved child care services offered these five types of care during the June quarter 2011.¹³

1.3 In June 2011, the ABS estimated that parents of 148 600 children had an unmet need for formal child care.¹⁴ In relation to the types of care sought in 2011, LDC was mainly required for 48 per cent children and OSHC was mainly

¹¹ A formal child care service is one that is approved by the Australian Government so that eligible parents can receive government funding to assist with the cost of child care.

¹² Australian Bureau of Statistics, May 2012, *4402.0 – Childhood Education and Care, Australia, June 2011*, available from: <www.abs.gov.au/ausstats/abs@.nsf/mf/4402.0> [accessed 20 July 2012].

¹³ Department of Education, Employment and Workplace Relations, February 2012, *Office of Early Childhood Education and Child Care: Child Care Update*, p. 2, available from: <www.deewr.gov.au/earlychildhood/resources/Pages/home.aspx> [accessed 20 July 2012].

¹⁴ ABS, May 2012, *4402.0 – Childhood Education and Care, Australia, June 2011*. There is no clear trend in the estimated unmet need for child care. In 2008 and 2005, the estimated number of children with an unmet need for formal child care was 90 000 and 188 400, respectively. ABS, October 2009, *4402.0 Childhood Education and Care, Australian, June 2008* and ABS, November 2008, *4402.0 – Child Care, Australia, June 2005*.

required for 34 per cent.¹⁵ For the remaining 18 per cent of children, parents mainly required either FDC or OCC.

1.4 There are a variety of factors which affect access to child care. These include the geographic proximity of services to parents' work or home, the availability of places at existing services, the availability of alternate care types and the cost of accessing care. In 2005, the ABS estimated that the two main reasons that formal care was needed but not used by parents were the availability of places (33 per cent of children) and the cost of accessing care (16 per cent of children).¹⁶

1.5 The Community Support Program (CSP) is a component of Australian Government funding provided directly to child care services, at an estimated total cost of \$327 million in 2011–12. In addition, the majority of Australian Government child care funding supports eligible families through the Child Care Benefit and Child Care Rebate, at a combined estimated cost of some \$4.2 billion in 2011–12.¹⁷

The Community Support Program

1.6 Through the CSP the Department of Education, Employment and Workplace Relations (DEEWR)¹⁸ makes a range of payments to formal child care service providers with the aim of improving access to child care, especially in areas where the market would otherwise fail to provide services. These payments include:

- support payments to help providers meet the costs associated with establishing a new child care service (establishment assistance);
- support payments to help providers maintain the delivery of child care (sustainability assistance); and

¹⁵ In 2008 and 2005, parents also mainly required LDC and OSHC.

¹⁶ In 2011 and 2008, the ABS did not report on these reasons. In 2011 and 2008, the ABS estimated that for 18 per cent and 20 per cent of children with an unmet need for formal care, their parents had applied for care but found that it was not available.

¹⁷ Department of Education, Employment and Workplace Relations, *Portfolio Budget Statements 2012–13*, pp. 36 and 38.

¹⁸ On its commencement in 2004, the CSP was administered by the then Department of Families and Community Services. Responsibility was transferred to DEEWR in December 2007 following Machinery of Government changes.

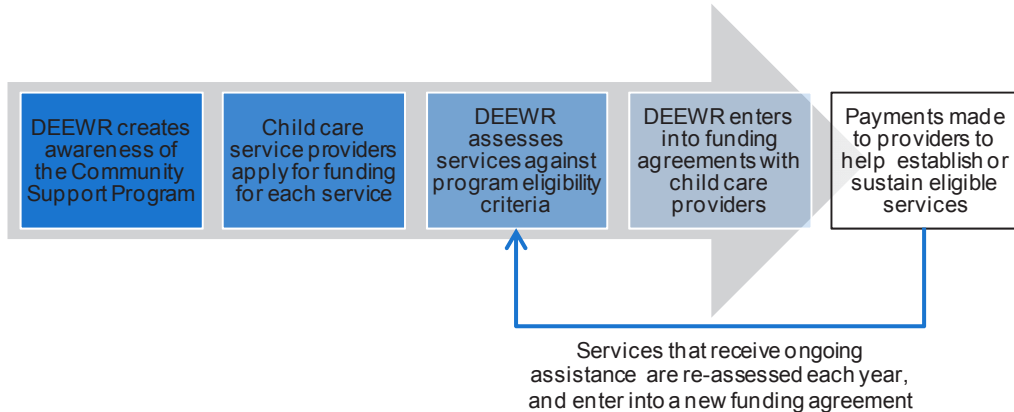
- support for the travel costs incurred for some regional and remote services (regional travel assistance).

1.7 The payments made to providers of formal child care services under the CSP are the focus of this audit. In 2011–12 CSP funding of \$104 million supported 1774 formal child care services (approximately 12 per cent of all approved services). Payments were made to help establish 192 services, sustain 1762 services and support regional travel for 89 services, with some services accessing multiple forms of assistance.

1.8 Under the CSP, payments are made to providers of child care for services that meet specified eligibility criteria, after the provider enters into a funding agreement with DEEWR (Figure 1.1). Providers of new services can apply for funding throughout the year. Once a service has been approved for funding, the provider does not have to continue to submit applications to receive ongoing assistance for that service. Instead, DEEWR periodically rechecks the service's eligibility using available data, and a new funding agreement is offered to eligible providers each year.

Figure 1.1

Overview of CSP delivery



Source: ANAO analysis.

1.9 The eligibility criteria for CSP funding differ for establishment, sustainability and regional travel assistance, and according to whether the provider offers LDC, OSHC, FDC, IHC or OCC. Similarly, payment rates vary

for each assistance and child care type. Eligibility criteria and payment rates depend on a range of factors, including the remoteness of a service¹⁹ and the number of child care places utilised.

1.10 CSP payments range from approximately \$2300 to assist with establishing a before or after school OSHC service, to approximately \$50 000 to help sustain a LDC service. Some FDC services receive substantially higher funding (for example in 2011–12, ten FDC services received between \$765 000 and \$1.4 million in funding) because they are supported at specific rates per place, per hour; whereas for the other major care types, services are eligible for fixed annual amounts per service. Establishment payments are made in full upon DEEWR and the provider entering into a funding agreement. Sustainability payments are generally made by DEEWR throughout the year, following the receipt of service reports on the numbers of child care places utilised.

1.11 Table 1.1 shows the amounts of CSP funding paid to formal child care providers in 2011–12, by assistance and care type.

¹⁹ For CSP payments, DEEWR uses the Accessibility/Remoteness Index of Australia plus (ARIA+) to classify the remoteness of child care services. ARIA+ categories range from major cities, to inner and outer regional areas, to remote and very remote areas.

Table 1.1**CSP funding, 2011–12, by assistance and care type**

Care type	Total funding (\$, GST Exc.)	Proportion of total funding (%)
Establishment assistance		
FDC	516 040	0.5
OSHC	605 682	0.6
Establishment subtotal	1 121 723	1.1
Sustainability assistance		
FDC	71 990 840	69.4
OSHC	11 934 998	11.5
LDC	8 987 928	8.7
IHC	5 109 545	4.9
OCC	3 733 725	3.6
Sustainability subtotal	101 757 036	98.1
Regional travel assistance		
FDC	642 457	0.6
IHC	53 366	0.1
Regional travel subtotal	695 823	0.7
Total	103 687 786	100.0

Note: Total funding amount does not add to the payment subtotals due to some payments having no identified assistance type. These payments totalled \$113 204. Sub-totals may also not add due to rounding.

Source: ANAO analysis of DEEWR program funding management system data, as at September 2012. See Chapter 2: CSP funding allocation, 2011–12 for further discussion and analysis.

The audit**Audit objective, criteria and scope**

1.12 The audit objective was to assess the effectiveness of DEEWR's administration of Community Support Program funding. The three high level criteria used to make this assessment were that DEEWR:

- effectively planned for program delivery;
- soundly managed program delivery; and
- effectively monitored and reported on program performance.

1.13 In 2010–11, the ANAO audited the effectiveness of DEEWR’s administrative arrangements for the delivery of two types of Indigenous child care services through CSP payments.²⁰ This audit focuses on CSP payments made to formal child care providers.

Audit methodology

1.14 Fieldwork was conducted in DEEWR’s national office and in three of its state offices between September 2011 and January 2012, and involved:

- document and file reviews, including reviewing a sample of 117 CSP funding agreement files;
- interviews with relevant DEEWR staff; and
- interviews with seven child care providers.

1.15 The audit team also analysed data from the Department of Families, Housing, Community Services and Indigenous Affairs’ (FaHCSIA’s) Online Funding Management System (FOFMS). This system is used by DEEWR to manage CSP funding agreements and payments.

1.16 The audit was conducted in accordance with the ANAO Auditing Standards, at a cost of approximately \$351 000.

²⁰ The two types of Indigenous child care services were Multifunctional Aboriginal Children’s Services and Crèches. ANAO Audit Report No.8, 2010–11, *Multifunctional Aboriginal Children’s Services (MACS) and Crèches*.

Report Structure

1.18 The remainder of the report consists of:

Chapter	Chapter overview
2. Planning for Program Delivery	Examines DEEWR's planning for the delivery of CSP funding, including the program objective and strategy, the targeting of the program and program governance arrangements. It also outlines the levels of CSP funding allocated to child care providers in 2010–11, by assistance, care type and remoteness category.
3. Delivering the Program	Examines the effectiveness of DEEWR's processes and systems for delivering CSP payments.
4. Monitoring and Reporting the Performance of the Program	Examines DEEWR's: monitoring of providers' compliance with funding agreements; establishment of performance measures and monitoring program performance; reporting of program performance; and evaluation of the CSP.

2. Planning for Program Delivery

This chapter examines DEEWR's planning for the delivery of CSP funding, including the program objective and strategy, the targeting of the program and program governance arrangements. It also outlines the levels of CSP funding allocated to child care providers in 2010–11, by assistance, care type and remoteness category.

Introduction

2.1 In order to meet Australian Government and stakeholder expectations regarding the achievement of established policy objectives, administering agencies require a well-developed understanding of the Government's policy objectives to implement programs that efficiently and effectively achieve policy objectives. The ANAO's examination of DEEWR's planning for the CSP funding considered the:

- strategy developed by DEEWR to achieve the Government's objective;
- targeting of the program, including the allocation of CSP funding in 2010–11; and
- establishment of program governance arrangements, including the assignment of program roles and responsibilities; risk management processes; program financial arrangements; and program guidance.

Program objective and strategy

2.2 In general, there should be clear alignment between the overall outcomes set by government, the operational objectives of the particular program, and the nature of the activity within the program, so that effective implementation of those activities can be reasonably expected to lead to the achievement of program objectives and contribute to the overall outcomes. In addition, in order to provide direction for the management of programs and to facilitate monitoring and evaluation, it is important that program objectives are stated in such a way that they are clearly defined, realistic and measurable.²¹

²¹ ANAO, *Better Practice Guide—Implementing Better Practice Grants Administration*, June 2010, Canberra, pp. 21, 44.

2.3 In June 2004, the then Minister for Children and Youth Affairs announced the outcomes of a review of the Child Care Support Broadband (the precursor program to the CSP and other child care programs). These outcomes included the establishment of the CSP, with the then Minister announcing that the CSP would provide approximately \$138 million per year to 'support the establishment and viability of targeted services, particularly in rural and remote communities'.²² The CSP was originally administered by the then Department of Families and Community Services. Responsibility was transferred to DEEWR in December 2007 following Machinery of Government changes.²³

2.4 The objective of the CSP²⁴, as described in the current CSP guidelines, is to:

deliver improved access to child care through support for establishment of new services and maintenance of services especially in areas where the market would otherwise fail to provide child care services.²⁵

2.5 Implicit in this objective is that for the program to be successful in achieving the objective, access to formal child care will be improved, against a pre-determined or notional baseline, as a result of CSP funding. To be able to achieve this, clear definitions of key program terms, supported by analysis to establish a baseline, would be required so that program activities can be targeted at the areas where the greatest gains could be made in relation to the objective. However, the key terms 'access' and 'areas where the market would otherwise fail to provide child care services' have not been clearly defined by DEEWR.²⁶ For example, access to child care can depend on a number of factors,

²² The Hon. Larry Anthony MP, 3 June 2004, *Helping child care services to support families*, available from: <www.formerministers.fahcsia.gov.au/larryanthony/mediareleases/2004/Pages/helping_cc_services_suppt_families.aspx> [accessed 12 January 2012].

²³ Commonwealth of Australia, *Administrative Arrangements Order*, No. S251, 3 December 2007.

²⁴ The CSP's 'objective' is never explicitly stated; rather, various program documents describe what the program does, or what it aims to do.

²⁵ DEEWR, *Community Support Program Guidelines Overview 2009–10*, p. 2.

²⁶ A similar issue was raised in the ANAO's audit of *Multifunctional Aboriginal Children's Services (MACS) and Crèches* (Audit Report No.8, 2010–11). In that audit, the ANAO recommended that DEEWR provide definitions of key program terms to assist it in making informed decisions about the ongoing administration of those elements, and to assess the success of payments to services. DEEWR agreed to the recommendation and during the course of this audit, advised that definitions of the terms 'access', 'availability', 'viability' and 'culturally competent' were being developed for those services.

such as: the geographical access to the service (the proximity of a service to a parent's home or work); the availability of places at existing services; the suitability of the hours of available care; the choice of care type available; and the cost of care. DEEWR has also not identified which of these factors the program aims to address. Furthermore, DEEWR has not analysed the circumstances of the child care sector, which would include the identification of areas where the market would otherwise fail to provide services without CSP funding, so as to assist and target subsequent measurement of the program's success.

2.6 Where program objectives are broadly defined, as is the case for the CSP objective, it is useful for the administering agency to develop a program strategy which guides the nature of the activity within the program. In particular, such a strategy would inform the targeting of CSP funding, and help to focus program monitoring efforts. In this respect, DEEWR does not have an explicit strategy that clearly sets out how it intends to target CSP funding to achieve the program objective.

Targeting program funding

2.7 As indicated in paragraph 2.5, program activities should generally be targeted at the areas where the greatest gains can be made in relation to the objective. The ANAO examined the approaches taken by DEEWR to target CSP payments, and their impact in terms of the distribution of funding.

2.8 For CSP payments, DEEWR employs a number of different approaches to target funding. These approaches differ for establishment, sustainability and regional travel assistance, and for the five types of formal child care. Tailored eligibility criteria and payment rates are the key mechanisms by which CSP funding is targeted. Program targeting is summarised for the three most prevalent types of care in Table 2.1.

Table 2.1**Targeting of CSP funding**

Eligibility criteria		Payment rates (2011–12)
Establishment assistance		
FDC	All services eligible, except where a for-profit owner already operates more than ten child care services (of any type).	Either \$6797 or \$13 595, depending on whether the service is supported by an existing service, or is a new service.
LDC	Exceptional circumstances only.	Approximately \$14 000.
OSHC	All services eligible, except where a for-profit owner already operates more than ten child care services (of any type).	\$2265 to \$4418, depending on remoteness category and service type (either before, after or vacation care).
Sustainability/operational assistance		
FDC (operational support)	All services eligible.	Payment on basis of an hourly rate per place depending on the remoteness of the service, ranging from \$0.67 (major city) to \$1.37 (very remote).
LDC (sustainability)	Services eligible if they equal or exceed 46 points ¹ , calculated based on the number of places offered, the number of baby places offered (0–2 years), the remoteness of the service and socio-economic measures. Services must also be deemed to be the 'sole provider of care in an area of need.'	Between \$28 325 and \$50 552 per annum, depending on number of places utilised and the remoteness of the service.
OSHC (sustainability)	All services eligible for first 12 months, except where service anticipates providing more than 31 full time equivalent places. Not-for-profit services eligible for ongoing assistance, if they equal or exceed 26 points ¹ calculated based on number of places, remoteness of the service and socio-economic factors.	Between \$3114 and \$12 520 per annum depending on care type (before, after or vacation care), the number of places utilised and the remoteness of the service.

Note: Table is a summary only – there are broader service eligibility factors applicable to all approved child care providers. The table also does not include regional travel assistance or grandfathered arrangements. 'Grandfathered arrangements' refers to arrangements which allow a previous rate of payment to continue, under the same or another program of assistance, even though a subsequent change in eligibility rules has occurred. More detail on program eligibility is provided in Chapter 3.

Note 1: To determine eligibility, DEEWR assigns points to services based on a variety of factors. If a service equals or exceeds a total number of points, the service is deemed eligible.

Source: ANAO summary of DEEWR funding agreements and guidelines.

2.9 With the tailoring of eligibility criteria and payment rates to each assistance and care type, the arrangements for targeting the program are quite detailed, especially in light of the generally small amounts of funding available to individual services.

2.10 A feature common to the eligibility and/or payment rates of most care types is the use of two indices: the Accessibility/Remoteness Index of Australia

Plus (ARIA+) and the Socio-Economic Indexes for Areas (SEIFA). For the CSP, DEEWR currently uses the 2001 Census versions of these two measures, despite significant updates available for both indices (based on the 2006 Census data). Further updates to both measures based on 2011 Census data are due in the near future.²⁷ As such, there would be merit in DEEWR, in consultation with its Minister, updating the indices used for the CSP, to reflect the socio-economic and population distribution changes that have occurred across Australia over the past decade. In this respect, DEEWR advised that it was undertaking an analysis of the program impact of transitioning to more recent ARIA+ or SEIFA versions (either 2006 or 2011).

CSP funding allocation, 2011–12

2.11 To demonstrate the results of the current approaches used to target program funding, the ANAO examined the amounts of CSP funding allocated to formal child care providers, by assistance, care type and remoteness category. The analysis was performed using 2011–12 data from the online program funding management system (FOFMS).

2.12 Table 2.2 shows CSP funding in 2011–12, by care type. The table demonstrates the wide variance in average funding amounts, from approximately \$12 000 for OSHC services to \$191 000 for FDC services. It also shows that 71 per cent of program funding was directed to FDC.²⁸ This is likely a result of all approved FDC services being eligible for CSP assistance, irrespective of the level of access to child care in the area, and the method of FDC funding which involves a certain rate per place, per hour of care. In contrast, approximately 10 per cent of Australian children in approved child care attend FDC.

²⁷ The ABS commenced the phased implementation of the new Australian Statistical Geography Standard in June 2011. The revised remoteness structure is to be released at the end of 2012. The ABS has not set a public timeframe for the release of the 2011 Census SEIFA update.

²⁸ DEEWR, *Child Care Update*, January 2012, available from: <www.deewr.gov.au/Earlychildhood/Resources/Pages/home.aspx> [accessed 2 February 2012].

Table 2.2**CSP funding, 2011–12, by care type**

Care type	Total funding (\$, GST Exc.)	Proportion of total funding (%)	No. of services	Average amount per service (\$)
FDC	73 212 028	70.6	382	191 655
OSHC	12 540 681	12.1	1009	12 429
LDC	8 987 928	8.7	217	41 419
IHC	5 213 425	5.0	65	80 207
OCC	3 733 725	3.6	101	36 968
Total	103 687 786	100.0	1774	58 449

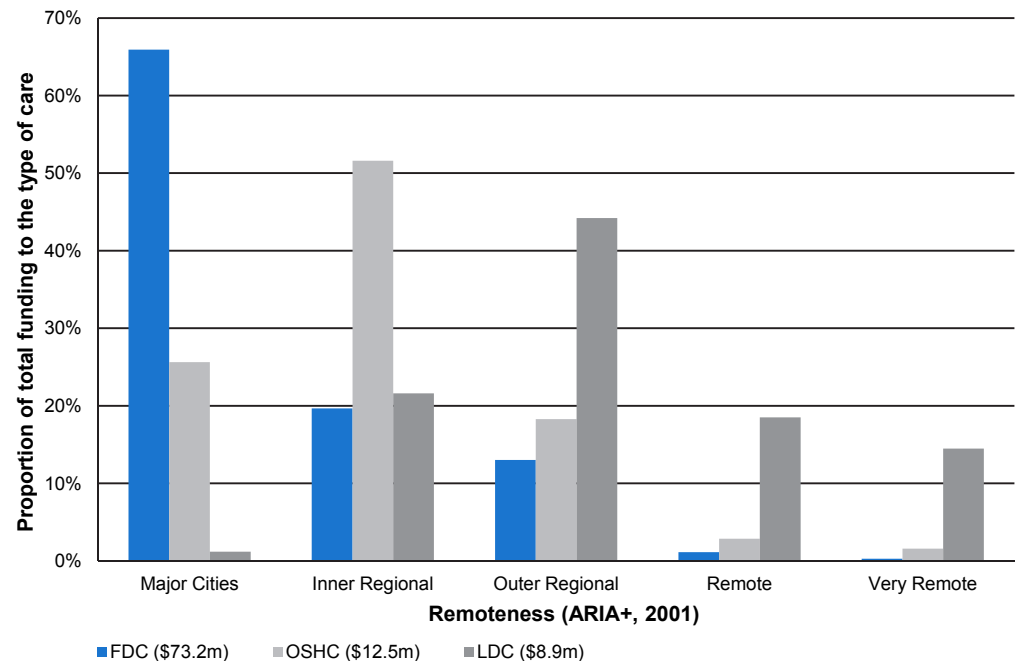
Note 1: The total funding column total does not add due to rounding.

Source: ANAO analysis of FOFMS data extract.

2.13 As mentioned in paragraph 2.3, in announcing the program in 2004, the then Minister stated that the program was to ‘support the establishment and viability of targeted services, particularly in rural and remote communities’. Figure 2.1 shows the proportions of CSP funding in 2011–12 by different remoteness categories, for the three most common types of child care (FDC, LDC, and OSHC). It shows that a majority of the funding to FDC providers was allocated to services in major cities, whereas the majority of OSHC funding was allocated to services in inner regional areas. The largest proportion of LDC funding (over 40 per cent) was allocated to outer regional areas.

Figure 2.1

Proportions of CSP funding by remoteness, 2011–12, for FDC, OSHC and LDC



Source: ANAO analysis of FOFMS data extract.

2.14 Table 2.3 shows CSP funding in 2011–12 by remoteness categories. It shows that a greater proportion of funding was provided to regional and remote areas than their share of population. This is consistent with the then Minister’s announcement in 2004 that the program would focus support in rural and remote communities.

Table 2.3**CSP funding, 2011–12, by remoteness**

Remoteness (ARIA+, 2001)	Total funding (\$, GST Exc.)	Proportion of total funding (%)	Australian population distribution (All ages, 2006, %)
Major cities of Australia	56 708 762	54.7	68.4
Inner regional Australia	24 466 353	23.6	19.7
Outer regional Australia	16 425 922	15.8	9.5
Remote Australia	3 383 756	3.3	1.5
Very remote Australia	2 697 330	2.6	0.8
Undetermined ¹	5664	0.0	-
Total	103 687 786	100.0	

Note 1: For a small number of services, DEEWR was unable to ascertain which remoteness category the service should be attributed to. DEEWR advised that this may be due to an inability to match a service's address to its geo-coding database.

Source: ANAO analysis of FOFMS data extract. Population figures from ABS publication *4102.0 Australian Social Trends 2008* (based on 2006 census data).

2.15 Table 2.4 shows the 10 highest total funding amounts going to individual child care services. The highest funding amounts were all for FDC services, predominately in major cities. This reflects the FDC sustainability assistance payment rates (based on a certain rate per place, per hour), the higher populations in major cities, and that some services provide child care to hundreds of children through a network of staff.

Table 2.4**Highest 10 total CSP funding amounts**

Care Type	Remoteness (ARIA+, 2001)	Total CSP funding (\$, GST Exc.)
FDC Service 1	Major city	1 414 775
FDC Service 2	Major city	1 099 972
FDC Service 3	Major city	1 083 063
FDC Service 4	Outer regional	1 039 924
FDC Service 5	Major city	982 128
FDC Service 6	Outer regional	897 229
FDC Service 7	Inner regional	874 761
FDC Service 8	Major city	827 559
FDC Service 9	Major city	808 349
FDC Service 10	Major city	765 224

Source: ANAO analysis of FOFMS data extract.

2.16 Analysis of the dataset also showed that 98 services for which providers received CSP assistance in 2011–12 closed between the start of that financial year and early September 2012 (when the dataset was provided). Analysis also showed that 192 services were provided with establishment assistance in 2011–12, meaning that in 2011–12, more services were assisted through the CSP to establish than the number of services in receipt of CSP who had ceased operating.

Program targeting conclusion

2.17 In the absence of a clear program strategy, it is difficult to make judgements about the appropriateness of the targeting of CSP funding. Further, DEEWR has not systematically measured or evaluated the effectiveness of the variety of CSP eligibility criteria and payment rates, across assistance and care types, since it assumed responsibility for the program in 2007.

2.18 In light of the current distribution of CSP funding, and following its clarification of the program strategy, DEEWR should review the appropriateness of the eligibility criteria and payment rates. Areas for consideration include that:

- all approved FDC providers are eligible for funding, irrespective of the level of access to child care in their area; whereas LDC services must be the 'sole-provider in an area of need' in order to be eligible to receive funding;
- LDC establishment assistance is approved in exceptional circumstances only; whereas for all other care types, there are circumstances in which services are 'entitled' to receive establishment assistance; and
- for sustainability assistance, for-profit OSHC providers are not eligible for ongoing funding; whereas for-profit providers of the other care types are potentially eligible for ongoing funding.

Recommendation No.1

2.19 To support the achievement of the objective of the Community Support Program, the ANAO recommends that DEEWR:

- analyse the child care market, including the areas where the market would fail to meet child care needs without Community Support Program funding; and
- review the appropriateness of the current eligibility criteria and payment rates in light of this analysis.

DEEWR response

2.20 Agreed. DEEWR will undertake an analysis of the current child care market and review the current eligibility criteria and payment rates in light of these findings.

Program governance arrangements

2.21 Sound governance arrangements provide a basis for the effective management and delivery of government programs. In relation to program governance, the ANAO examined DEEWR's: assignment of program roles and responsibilities; risk management processes; program financial arrangements; and program guidance.

Program roles and responsibilities

2.22 A key aspect of governance is the establishment of clearly defined roles and responsibilities. The ANAO examined DEEWR's program oversight and delivery responsibilities for the CSP.

2.23 DEEWR’s Early Childhood and Child Care Programs Branch is responsible for the national direction of the aspects of the CSP which relate to formal child care.²⁹ It is also tasked with responding to requests from the Minister, the Parliament and the public relating to child care service support and access, and other child care initiatives.³⁰ The Early Childhood and Child Care Programs Branch head is the National Program Delegate, responsible for the management of the CSP within its budget allocation and for discretionary decisions. These decisions include provision of LDC establishment assistance in exceptional circumstances.

2.24 DEEWR’s state and territory offices are responsible for the day-to-day administration of the program, including assessing eligibility and managing funding agreements. The division of responsibilities between the national and state and territory offices is shown in Table 2.5.

Table 2.5

Division of CSP responsibilities between DEEWR offices

National office	State and territory offices
<p>Contribute to the development of CSP policy.</p> <p>Monitor program expenditure.</p> <p>Identify and manage program risks.</p> <p>Clarify legal and policy issues.</p> <p>Develop documentation including guidelines, funding agreements, templates and tools.</p> <p>Organise training and support.</p> <p>Report on the program.</p>	<p>Assist the national office in developing documentation and in monitoring and reporting on the program.</p> <p>Manage stakeholder relations.</p> <p>Assess applications for funding against eligibility criteria.</p> <p>Prepare and manage funding agreements for successful applicants.</p>

Source: DEEWR.

2.25 DEEWR staff interviewed in both national and state and territory offices had a good understanding of the division of CSP responsibilities. State and territory staff also understood the circumstances in which communication with the national office was necessary.

²⁹ Within the Branch, responsibility for the CSP payments was split across two sections, each primarily responsible for different care types. As the audit progressed, DEEWR consolidated responsibilities for the payments under one section.

³⁰ Two examples of these initiatives are the Home Interaction Program for Parents and Youngsters (a home-based parenting and early childhood enrichment program), and the Australian Early Development Index (a national collection of information on young children’s development).

Risk management

2.26 A critical component of program governance is identifying key program risks and developing appropriate mitigation strategies. A structured risk management approach involves consideration of the program context, and the identification and assessment of risks. These assessments should be regularly updated, with treatments and controls put in place as a result of the risk analysis.

2.27 DEEWR has a CSP risk management plan which was last updated in January 2012. The plan describes objectives of the CSP³¹, environmental considerations and stakeholders. It also identifies risks, associated likelihood and consequence ratings, and risk treatments, owners and review dates. The five risks identified in the plan (and their risk ratings) are:

- the CSP procurements fail to meet their objectives (low);
- inadequate CSP funding security allows fraudulent payments to service providers (low);
- the CSP fails to meet its objectives (low);
- loss of ministerial or governmental confidence in DEEWR (medium); and
- the CSP is administered poorly (low).

2.28 There remains scope for improvement in CSP risk management.³² The current risk plan does not identify some key program risks, such as risks associated with the recent introduction of the National Quality Framework for

³¹ The objectives identified in the risk plan are considerably different from those in the CSP guidelines. The current risk management plans states the 'primary objectives of the CSP are to:

1. Assist child care service providers to establish or maintain viable services in parts of the country where the market has experienced place-based difficulties.
2. Provide support payments and funding contributions that are tailored to support different types of child care in different circumstances.
3. Enable the Australian Government to respond to emergency or unforeseen situations with funding where the provision of child care is in jeopardy to the extent that its loss would significantly affect a community's ability to function.'

³² DEEWR advised that a revised risk management framework would be considered as part of the CSP Program Administration Improvement Project.

Early Childhood Education and Care (NQF).³³ For example, the need for child care services to have additional and more highly qualified staff under the NQF has implications for CSP service providers. As a consequence, it will be important that DEEWR monitors the NQF's impact specifically in relation to CSP services—particularly those that receive sustainability assistance. The plan also does not identify the risk of exceeding the annual CSP program budget, an important consideration given the demand-driven nature of the program.³⁴

2.29 Further, some of the key treatments identified in the risk plan have not been effectively implemented. For example, a treatment listed for all of the identified risks is 'staff have access to appropriate training and support'. A lack of staff training and support in relation to the key program IT system was identified by this audit.³⁵ Another important treatment identified in the risk plan is to 'use up to date research and policy outputs to keep the CSP flexible and adaptive to changing needs across the child care sector'. However, as indicated in paragraphs 2.5 and 2.17, DEEWR has not analysed the circumstances of the child care sector in relation to the CSP, nor systematically evaluated the appropriateness of program targeting, to inform its policy advice.

Program financial arrangements

2.30 Determining the character of a program's financial arrangements enables an agency to identify the range of legislative and policy requirements which need to be complied with for proper accountability. Program financial arrangements can include grants, procurements, entitlements and a number of other arrangements.³⁶

³³ The NQF aims to raise quality and drive continuous improvement and consistency in education and care services through: a national legislative framework; a National Quality Standard; a national quality rating and assessment process; a new national body called the Australian Children's Education and Care Quality Authority. The NQF took effect on 1 January 2012. Requirements such as qualification, educator-to-child ratios and other key staffing arrangements will be phased in between 2012 and 2020.

³⁴ The ANAO notes that although the risk plan does not identify the risk of exceeding the program budget, DEEWR has processes to monitor program expenditure each month.

³⁵ See Chapter 3: Delivering the Program. DEEWR advised that an ongoing training strategy to address the needs of relevant child care staff is under development.

³⁶ Other arrangements include payments to states and territories, gifts, investments, loans, and subsidies and rebates. Source: Department of Finance and Deregulation, 2009, *Finance Circular 2009/03, Grants and other common financial arrangements*, available from: <www.finance.gov.au/publications/finance-circulars/2009/03.html> [accessed 28 May 2012].

2.31 If a financial arrangement is considered to be a grant, the provisions of the *Commonwealth Grant Guidelines* (CGGs)³⁷ are to be adhered to, in addition to relevant legislative and policy requirements. If on the other hand a financial arrangement is considered to be an entitlement, the CGGs do not apply, rather the relevant legislation or policy documentation forms the basis of its administration.

2.32 The Department of Finance and Deregulation (Finance) offers guidance to agencies on how to distinguish a grant from other common types of financial arrangements.³⁸ In defining entitlements, the guidance indicates:

A benefit payment generally involves no obligation on the recipient to spend the proceeds for any particular purpose, or to subsequently account for or acquit the expenditure.

An entitlement is a right to a particular payment or benefit, ...creating an obligation on the Australian Government to provide the entitlement if the relevant criteria are satisfied.

The substantive purposes and characteristics of a financial arrangement – as detailed in the applicable legislation, guidelines or program documentation – will help determine whether an arrangement creates an entitlement.

2.33 In order to ascertain which administrative framework should apply to the program, DEEWR has sought to determine (in 2009, 2011 and 2012) whether CSP payments to formal child care providers are grants or entitlements. In 2009, DEEWR sought advice from Finance in relation to the potential impact of the CGGs which were being finalised at the time. However, DEEWR provided relatively limited information to Finance, including indicating that the payments were predominately demand driven and that there was no discretion in approving the payments. Finance advised that, based on the limited information provided, it appeared that the payments exhibited characteristics of both grants and entitlements. As such, DEEWR was advised to make a judgement based on the substantive purposes and characteristics of the financial arrangements, and to document its decision and

³⁷ Department of Finance and Deregulation, 2009, *Commonwealth Grant Guidelines*, available from: <www.finance.gov.au/publications/fmg-series/23-commonwealth-grant-guidelines.html> [accessed 28 May 2012].

³⁸ Department of Finance and Deregulation, 2009, *Finance Circular 2009/03, Grants and other common financial arrangements*.

the rationale for that decision. DEEWR determined that the payments were entitlements, although the rationale for the decision was not documented, and DEEWR continued to report the payments as grants.

2.34 In 2011, DEEWR reaffirmed that the payments were entitlements, based on advice from its Procurement and Grants Policy and Services Branch and the 2009 Finance advice. At this time, DEEWR ceased reporting CSP payments to formal child care providers as grants.³⁹ Further, during the course of this audit, DEEWR obtained more thorough internal legal advice that although the payment arrangements contained elements of both grants and entitlements, on balance, the arrangements were better characterised as entitlements.⁴⁰

2.35 While DEEWR classifies the CSP funding as an entitlement, several aspects of the administrative arrangements for the funding continue to resemble that of a grants program. For example, DEEWR publishes program guidelines, and requires child care providers to enter into funding agreements and submit reports⁴¹, in order to receive funding.⁴² In this respect, Finance advised the ANAO that an agency may choose to administer an entitlement like a grants program, including to strengthen accountability. Nonetheless, having determined the CSP payments are entitlements, it remains open for DEEWR to pursue further administrative efficiencies, such as simplifying or using alternate forms of funding agreements, and further streamlining provider reporting arrangements. Any changes would need to be based on an assessment of the associated risks and benefits.

Program guidance

2.36 To support efficient and effective program management, program guidance should be comprehensive, clear, consistent, up-to-date and aligned

³⁹ The CCGs require agencies to report grants within seven days of a funding agreement taking effect.

⁴⁰ The advice was based on a more detailed discussion of the program's administrative arrangements. However, a few key matters, such as activity reports, appear to have not been considered.

⁴¹ While Finance guidance suggests that benefit payments generally involve no obligation on the recipient to spend the proceeds for any particular purpose, or to subsequently account for or acquit the expenditure, DEEWR requires child care providers to comply with a range of terms and conditions. For example, this includes providing financial acquittal reports that demonstrate that funding was spent on purposes as outlined in CSP funding agreements.

⁴² DEEWR also advises child care services that it retains discretion in relation in determining eligibility for LDC establishment assistance, and the geographic classification of services (upon which eligibility criteria and payment rates may be based).

with policy. Additionally, program guidance should be easily accessible for all program stakeholders.

2.37 DEEWR provides CSP guidance to stakeholders principally via program guidelines, which are available on DEEWR's website; and funding agreements, which DEEWR provides to successful applicants. The suite of CSP guidelines⁴³ outlines the eligibility criteria and payment rates, application procedures, how funding can and cannot be used, and requirements of funding recipients (including reporting). Other administrative matters such as complaints procedures are also outlined. Further program guidance is provided in the *Child Care Service Handbook*⁴⁴ and on DEEWR's website. Together, these materials provide a significant amount of readily accessible information about the requirements and operation of the CSP to child care providers.

2.38 Following the development of new funding agreements for 2011–12, the CSP guidelines required updating to ensure consistency. Draft 2011–12 guidelines were prepared and disseminated to DEEWR's state and territory offices for comment in early 2011. However, DEEWR has not finalised the guidelines and the 2010–11 guidelines remained in place for the commencement of the 2012–13 financial year. Some aspects of the 2010–11 CSP guidelines do not align with current funding agreements. For example, the payment rates listed are for 2010–11 not 2012–13, and the LDC and OSHC guidance contains information on activity reports which are no longer required for these services. As a consequence, DEEWR advised that a comprehensive revision of the guidelines was underway, including to ensure consistency with funding agreements.

2.39 Child care providers and DEEWR state office staff advised that a number of specific areas of guidance should also be clarified. For example, providers sought to better understand the department's definition of a 'sole

⁴³ The suite consists of an overview document and separate guidelines for each type of child care. While the current suite of guidelines are dated either 2009–10 or 2010–11, they are considered by DEEWR to remain in force until such time that they are updated.

⁴⁴ The *Child Care Service Handbook 2011–12* provides information to all approved child care services and includes a section on 'support for child care services – funding and assistance', available from: <www.deewr.gov.au/Earlychildhood/Programs/ChildCareforServices/Operation/Documents/CCS_Handbook.pdf> [accessed 13 January 2012].

provider in an area', a rule which applies to LDC sustainability assistance eligibility. The department defines a 'sole provider' of LDC as:

a service providing the only form of approved centre-based long day care in an area. For Sustainability Assistance eligibility, the 'sole provider of LDC' applies to individual services, not operators.⁴⁵

2.40 There were different applications of this rule across DEEWR state and territory offices. In two offices, staff considered that the 'sole provider in an area' related only to an undefined measure of distance. One state office, however, believed the rule could be, and had been, applied more broadly. For example, DEEWR's national office had approved two services as sole providers of care where one offered extended opening hours, and the other provided care specifically tailored to the needs of Indigenous children.

2.41 DEEWR state offices were generally aware of the need to seek advice from the national office to clarify the application of guidance material. However, inconsistent national office determinations over time have led to different state interpretations of the 'sole provider' rule.⁴⁶ To ensure the equitable application of rules across all states and territories, it is important that relevant national office determinations are clarified and communicated to all DEEWR state and territory offices. DEEWR advised that additional clarification of the sole provider policy would be provided in the revised program guidelines and new operational guidelines (internal staff guidance), to help ensure the equitable application of the rule across all states and territories.

Supporting staff in delivering the program

2.42 Having established program responsibilities, it is also important to support relevant staff in fulfilling their duties through guidance and advice. DEEWR staff can access internal CSP guidance documents and templates through the DEEWR intranet. The main guidance document is the Operational Guide for the CSP. The Operational Guide was last updated in February 2010. DEEWR plans to update this guide as part of the CSP Program Administration

⁴⁵ DEEWR, *Long Day Care Funding. Program Guidelines 2010–11*, p. 10.

⁴⁶ In 2010, DEEWR analysed the 186 LDC services in receipt of sustainability assistance as at May 2009, and found that 21 services were located less than 10 kilometres from the next closest LDC service.

Improvement Project (see paragraph 4.32 for more information about the project).

2.43 To facilitate efficient communication between the state and territory offices and national office, DEEWR uses a variety of communication methods, including email, an internal newsletter and its intranet. DEEWR also makes available a CSP email mailbox to its state and territory offices.⁴⁷

2.44 An area for communication improvement could be reinstatement of periodic CSP-specific operational teleconferences between states and territory offices and the national office, which had ceased in early 2011. State staff advised that the teleconferences had improved communication and coordination, both with the national office, and across states and territories.⁴⁸

Conclusion

2.45 As CSP funding is available to only a small proportion of all formal child care services (12 per cent in 2011–12), it is important the funding is appropriately targeted so as to improve access to child care. Access to child care can depend on a number of factors, such as: the geographical access to the service (the proximity of a service to a parent's home or work); the availability of places at existing services; the choice of care type available; and the cost of care. However, DEEWR has not identified which of these factors the program aims to address. Furthermore, DEEWR has not analysed the child care market, which would involve identifying the areas where the market would fail to meet child care needs without CSP funding. DEEWR could clarify its approach to achieving the program objective through the development of an explicit program strategy which gives appropriate consideration to these factors.

2.46 DEEWR has not systematically measured or evaluated the effectiveness of the variety of CSP eligibility criteria and payment rates, across assistance

⁴⁷ The email mailbox receives policy and other queries from the state and territory offices. The mailbox is monitored by the national office CSP team and actioned by the appropriate team member. It is useful for staff in state and territory offices because all queries can be sent to a single place, removing the need to identify the appropriate contact. State office staff advised that an improvement may be to use DEEWR's intranet to publish mailbox questions and responses, particularly when the issue is broadly applicable.

⁴⁸ DEEWR advised that regular (generally monthly) meetings occur between business managers in the states and territories and the national office, which canvass a broad range of CSP-related matters. DEEWR further advised that it has been common practice to form working groups of state and territory and national office staff around certain matters such as revising funding agreements.

and care types, since it assumed responsibility for the program in 2007. In this context, the majority of CSP funding to formal child care for 2011–12 (approximately 71 per cent) was allocated to support the sustainability of one type of child care—FDC, which accounts for approximately 10 per cent of all children in formal care. In contrast, 21 per cent of CSP funding was allocated to the two main types of care—LDC and OSHC, which account for approximately 90 per cent of all children in formal care. As the CSP has been in place since 2004, it is timely for DEEWR to review the appropriateness of the CSP eligibility criteria and payment rates in light of the distribution of program funding and the present circumstances of the child care sector.

2.47 In establishing CSP governance arrangements, DEEWR has clearly articulated the respective administrative responsibilities of its national and state and territory offices, developed and made publicly available detailed program guidelines and eligibility criteria, and assessed program risks. However, there would be merit in DEEWR updating its program guidelines, including to accurately reflect current payment rates and provider reporting arrangements. In addition, DEEWR’s risk management approach could be further strengthened by considering key risks such as the introduction of the National Quality Framework⁴⁹, and by implementing, where appropriate, identified risk treatments.

⁴⁹ The National Quality Framework aims to raise quality and drive continuous improvement and consistency in education and care services. The framework began to take effect on 1 January 2012 with key requirements being phased in over time. Importantly, the framework requires higher educator-to-child ratios, higher qualified FDC and LDC service staff, and more stringent standards for the physical environment of child care services. These requirements will have implications for many services, including those in receipt of sustainability assistance.

3. Delivering the Program

This chapter examines the effectiveness of DEEWR's processes and systems for delivering CSP payments.

Introduction

3.1 The processes and systems an agency establishes to deliver a program are central to the efficiency of program administration, and contribute to the achievement of program objectives. For the CSP, it is important these processes and systems facilitate potential and actual child care providers' participation in the program, result in appropriate approval of providers for funding, and support delivery of accurate and timely payments.

3.2 This chapter examines DEEWR's application, assessment, approval and funding agreement processes for CSP funding which are primarily the responsibility of DEEWR's state and territory offices. The chapter also examines the use of IT systems in delivering the CSP.

3.3 The ANAO analysed a sample of DEEWR's files for 117 child care services, from the three states in which it conducted fieldwork. Most of these services received CSP assistance in 2010–11 and/or 2011–12.⁵⁰ The sample included services eligible for establishment, sustainability (both new and ongoing funding) and regional travel assistance, and a small number of services for which applications were rejected by DEEWR. Analysis of this sample informed the ANAO's assessment of DEEWR's day-to-day administration of the program.

The application process

3.4 In order to support achievement of the program objective, potential and actual child care providers should be informed about the purpose of the program and the conditions under which CSP funding is available. Additionally, the application process should serve to efficiently obtain the information that DEEWR requires to assess a service's eligibility.

⁵⁰ Representing approximately seven per cent of the total number of services in receipt of CSP assistance.

3.5 As previously discussed in paragraph 2.37, DEEWR seeks to create awareness of the CSP through program guidelines, its website and the *Child Care Service Handbook*.⁵¹ Further, when new providers apply for approval of Child Care Benefit (CCB)⁵² through the DEEWR office in their state or territory, the CCB approvals team notifies CSP staff who, if the applicant is potentially eligible for CSP funding, contact the service to explain the application process and provide application forms. Using the CCB approval process as a gateway to the CSP is a useful additional process to increase awareness of the program.

3.6 To first receive CSP assistance, service providers that operate, or plan to operate, FDC, LDC and OSHC services must submit an application for CSP funding. Once a service has been approved for funding, the provider does not have to continue to submit applications to receive ongoing assistance for that service. Instead, DEEWR periodically rechecks the service's eligibility, as discussed later in paragraphs 3.23 and 3.24. All IHC and OCC providers automatically receive offers for CSP funding and do not need to complete application forms.⁵³

3.7 CSP application forms are available on the DEEWR website and include information on how to submit the application once complete. To apply, an authorised officer for the child care service must complete an application form that includes:

- service details (for example, service location and bank account details);
- supporting information to assist in determining whether the service is eligible for funding; and
- an applicant declaration that the information given in the application is complete and correct.

3.8 The supporting information required by DEEWR differs by care type. For example, when providers apply for establishment assistance for new FDC

⁵¹ The *Child Care Service Handbook* provides guidance to approved child care services operating under the Child Care Management System (CCMS). The guide can also be used as a resource for organisations setting up a new child care service.

⁵² CCB is a payment made by the Australian Government to families to assist with the cost of child care.

⁵³ Child Care Benefit-approved OCC and IHC are capped programs, and as such, individual OCC and IHC services have previously been allocated a limited number of places that they can provide. Since these types of services are also automatically eligible under the CSP, DEEWR does not require them to apply for CSP funding.

services they must provide documentation to show that the service will provide at least 10 full-time equivalent places, within three months of receiving assistance.

3.9 The CSP application forms are brief (some three or four pages) and relatively straightforward to complete. However, child care providers vary significantly in terms of their familiarity with government processes. From the sample of files examined by the ANAO, a small proportion of service providers appeared to experience difficulty filling application forms in correctly, and in including all of the necessary supporting documentation with their application. In this respect, a checklist to support the correct completion of applications may be helpful, particularly for new FDC services, as more documentation is required for these services than for the other care types.

3.10 In summary, DEEWR has built awareness of the program by making CSP materials publicly available and through the CCB approval process. Furthermore, DEEWR's application processes have generally assisted child care providers in submitting the information that DEEWR requires for its assessment process.

Assessing service eligibility

3.11 DEEWR state and territory office staff are responsible for assessing applications for funding against the eligibility criteria, and allocating funding accordingly. The ANAO assessed the effectiveness of DEEWR's assessment processes, including whether its processes consistently recommended services that met the eligibility criteria, in a timely fashion.

3.12 For a provider to be eligible for CSP payments, a child care service must meet several requirements that are universal to all assistance and care types. Child care services must also meet eligibility requirements specific to the assistance and care type.

3.13 The universal requirements for CSP funding are that formal child care services must:

- be approved to administer CCB on behalf of families and have an Australian Business Number;
- meet specified insurance requirements prescribed by DEEWR (over and above that required for CCB approval purposes);
- meet relevant national quality standards; and

- meet the reporting requirements outlined by DEEWR.

3.14 The specific eligibility requirements and DEEWR's assessment approach for these requirements are discussed below for each type of assistance (establishment, sustainability and regional travel assistance).

Assessing eligibility for establishment assistance

3.15 In 2011–12, approximately \$1.1 million in establishment assistance was paid to child care providers for 192 services. Table 3.1 details the eligibility requirements for establishment assistance available to providers of child care services. Establishment assistance focuses on FDC, IHC and OSHC rather than LDC. Just two LDC services have received establishment assistance since the program's establishment in 2004, and not during the period examined by the ANAO.

Table 3.1

Eligibility for CSP establishment assistance

Payment	Eligibility
LDC	LDC services can access establishment assistance under exceptional circumstances only, at the discretion of the National Program Delegate.
FDC	All new IHC services with places already allocated by the Government, and all new FDC and OSHC services are eligible for establishment assistance, with the exception of for-profit organisations that already operate 10 child care services or more, of any care type, Australia wide. The service must be a new service and must: <ul style="list-style-type: none"> • not have commenced providing child care; • not be a relocation of an existing service; and • not be taking over a child care service of the same care type that has operated from the same facilities in the previous 12 months.
IHC	
OSHC	

Note: Establishment assistance is not available to OCC services.

Source: CSP guidelines.

3.16 To ascertain whether FDC, IHC and OSHC services meet the criteria for accessing establishment assistance payments, DEEWR state and territory office staff review the information submitted as part of their applications. For certain criteria, such as the number of services already operated by a provider, some DEEWR staff sought to substantiate the answers provided by applicants by additionally checking information in the funding management system, other IT systems or various Internet sources. However, the additional potential checks were not always performed in all states.

Assessing eligibility for sustainability assistance

3.17 In 2011–12, approximately \$101.8 million in sustainability assistance was paid to child care providers for 1762 services. For some care types, sustainability assistance is also known as ‘operational support’. Table 3.2 details the eligibility requirements for sustainability assistance available to providers of child care services.⁵⁴

Table 3.2

Eligibility for CSP sustainability assistance

Payment	Eligibility
FDC, IHC and OCC operational support	All FDC, IHC and OCC services are eligible for operational support payments.
LDC sustainability assistance	<p>To determine eligibility for LDC sustainability assistance, DEEWR assigns a service a score, taking into account the:</p> <ul style="list-style-type: none"> • remoteness of the service, as measured by ARIA+ 2001¹; • socio-economic status of the community, derived from SEIFA 2001¹; • service’s number of full-time equivalent utilised child care places; and • proportion of baby places for which the service is licensed. <p>If a service receives a score of 46 or higher based on the above criteria, and is also deemed by DEEWR to be the ‘sole provider of care in an area of need’, the service is eligible for sustainability assistance.</p>
OSHC sustainability assistance	<p>All services eligible for first 12 months, except where a service anticipates providing more than 31 full time equivalent places. Only not-for-profit services are eligible for ongoing OSHC sustainability assistance. To determine their eligibility, DEEWR assigns services a score, taking into account the:</p> <ul style="list-style-type: none"> • remoteness of the service, as measured by ARIA+ 2001¹; • socio-economic status of the community, derived from SEIFA 2001¹; and • service’s number of equivalent full-time utilised child care places. <p>If a not-for-profit service receives a score of 26 or higher, based on the above criteria, they are eligible for sustainability assistance.</p>

Source: CSP guidelines.

Note 1: ARIA+ is the Accessibility/Remoteness Index of Australia Plus, which provides a geographical definition of the remoteness continuum. SEIFA is the Socio-Economic Indexes for Areas, a measure of socio-economic disadvantage produced by the ABS.

3.18 For most of the criteria used to determine eligibility for sustainability assistance, DEEWR has a basis on which to assign scores (such as the ARIA+ or SEIFA measures). However, in relation to LDC sustainability assistance, it is difficult for DEEWR to consistently assign the ‘baby places’ score across all

⁵⁴ Not including grandfathered forms of assistance, which are not available to new applicants.

states and territories, primarily because licensing of such places differs between states and territories. For example, in South Australia, the 'baby places' score is based on licensed places, even where the actual number of places used is significantly lower. In contrast, in Victoria the score is based on self-reporting by services of the proportion of actual care they expect to provide to babies. In Victoria, licensing does not specify 'baby places'; rather, Victorian services are licensed to provide care for a total number of children, including both babies and older children.⁵⁵

3.19 As indicated in Table 3.2, LDC services must be a 'sole provider' of LDC in an area to receive sustainability assistance. However, as discussed in paragraph 2.39, the 'sole provider' rule is not clearly defined by DEEWR and different understandings and processes were observed across the three states the ANAO visited. DEEWR advised that further clarification of the rule would be provided to consistently assess eligibility against the criteria.

Assessing eligibility for regional travel assistance

3.20 The Regional Travel Assistance Grant (RTAG) is a payment towards the travel costs of FDC and IHC services with a high proportion of carers providing care in regional and remote areas.⁵⁶ In 2011–12, approximately \$696 000 in regional travel assistance was paid to child care providers for 89 services. Table 3.3 shows the eligibility requirements of regional travel assistance.

⁵⁵ DEEWR advised that under the new NQF arrangements, services will not be required to keep a record of the proportion of places that they provide to children under 24 months of age. DEEWR further advised it is considering the policy implications of this change.

⁵⁶ FDC and IHC services generally have a central coordination unit, from which staff periodically travel to carers' homes for various purposes, such as inducting new carers, assessing the suitability of homes, and providing training and support.

Table 3.3**Eligibility for CSP regional travel assistance**

Payment	Eligibility
FDC	To be eligible for RTAG, a service must have 51 per cent or more of their carers providing care in regional or remote areas.
IHC	To be eligible for RTAG, a service must have 51 per cent or more of their carers providing care in regional or remote areas, or 21 per cent or more of their carers providing care in remote or very remote areas, as measured by ARIA+ 2001.

Source: CSP guidelines.

3.21 To ascertain whether services meet the eligibility criteria for RTAG, DEEWR state and territory office staff obtain a list of all carers' names and addresses from FDC and IHC providers. DEEWR staff then analyse the lists using 2001 ARIA+ data against the criteria.

3.22 Eligible providers can submit an RTAG claim form each quarter. The claim form fulfils two purposes—that of an application and as a report on the distances travelled by staff. DEEWR calculates payments based on the distance travelled over a certain threshold. The applicable threshold is determined by the number of occupied child care places. The form states that service staff should use log books to record distances travelled to undertake visits to monitor, train and support carers. DEEWR does not routinely request log books, but does request and check them where a contract manager believes investigation or analysis of a particular claim or service is warranted.

Ongoing eligibility

3.23 For providers who receive ongoing forms of sustainability assistance, DEEWR has processes to recheck the eligibility of those services. This includes prior to entering into another annual funding agreement, and when providers report the numbers of places utilised for services.⁵⁷

3.24 It is also possible that previously ineligible services may become eligible for CSP assistance if certain changes occur, such as falls in the number of children attending a service. Specifically for LDC providers, a change that affects service eligibility could be the closure of the only other service in the area (thus triggering the 'sole provider' rule). At present, DEEWR does not

⁵⁷ See Chapter 4: Monitoring of providers' compliance with funding agreements for more detail on service reporting.

have a system to identify services that become eligible, instead relying on those services to make another application.

Conclusion—assessing service eligibility

3.25 Overall, the ANAO found that, for the sample of 117 service files, assessments were carried out in a timely fashion and that eligible services were appropriately recommended for initial or ongoing funding.

3.26 DEEWR's records of eligibility assessments clearly showed the assessment outcome and the post-assessment advice to service providers. Importantly, the ANAO found no instances of clearly ineligible services being approved for funding. Based on the sample, DEEWR staff generally completed eligibility assessments within a month of receiving an application for funding.

3.27 However, there are areas for improvement in DEEWR's assessment processes. Documented eligibility assessments did not always cover both universal CSP requirements (for example, insurance requirements) and specific requirements (for example, remoteness category). Further, the ANAO observed that in the three states it visited, DEEWR staff occasionally applied a range of additional checks to further inform their eligibility assessments. DEEWR could consider the range of additional checks being applied by its staff and decide which should be incorporated into the CSP assessment process, to improve consistency across all states and territories.⁵⁸ Lastly, a small proportion of assessments were not dated, and while most were signed, it was occasionally unclear which staff member conducted the eligibility assessment. Where assessments are not dated or the assessor is unknown, there are potential implications, for example where a provider does not receive timely payments or complains about the assessment process, there is a risk that a resolution of the issue could be complicated or slowed.

Approvals, funding agreements and payments

3.28 To receive CSP funding, services must be assessed as eligible and enter into a funding agreement. This section covers:

⁵⁸ DEEWR advised that to improve consistency across all states, it will consider the range of additional checks being applied through the work of the CSP Program Administration Improvement Project.

- DEEWR's CSP funding approval processes, including the compliance of CSP funding with Australian Government obligations relating to the commitment of public money;
- DEEWR's funding agreements to administer CSP funding; and
- the accuracy of payments made to services.

Approval processes

3.29 Agencies should ensure decisions to enter into funding agreements are made at an appropriately senior level and documented. For the CSP, following the completion of eligibility assessments, the authorisation to enter into funding agreements is made by a more senior person than the one who completed the assessment. This is usually the relevant state manager or state section manager. These managers are responsible for negotiating and signing funding agreements within the guidelines set by the National Program Delegate. The authorisation to enter into funding agreements is documented on state and territory assessment sheets and in the program funding management system.⁵⁹

3.30 In addition, the *Financial Management and Accountability Act 1997* (FMA Act) and the *Financial Management and Accountability Regulations 1997* (FMA Regulations) set out law governing the proper use of public money. This includes approving a spending proposal before entering into funding agreements.⁶⁰

3.31 In December 2010, DEEWR decided to establish a combined Regulation 9 approval at the program level, to replace Regulation 9 approvals for every funding agreement. The Regulation 9 approval for 2011–12, signed by the then responsible DEEWR Group Managers, states that expenditure for applicants that meet the criteria in the guidelines is approved (up to the

⁵⁹ Refer to paragraph 3.41 for further discussion about the program funding management system.

⁶⁰ FMA Regulation 9 approval requires approvers to consider spending proposals and only approve the proposal if satisfied that it represents a proper use of Australian Government resources. For more information, see Department of Finance and Deregulation, *Finance Circular No. 2011/01: Commitments to spend public money (FMA Regulations 7 to 12)*, 2011, Finance, Canberra, available from <www.finance.gov.au/publications/finance-circulars/2011/docs/Finance-Circular-2011-01-FMA-Regulations-7-12.pdf> [accessed 22 March 2012].

available budget).⁶¹ While there is some scope under the financial management framework to provide 'bulk' approvals for similar or identical spending proposals, in this case, the approval covered the five different types of formal child care, and establishment, sustainability and regional travel assistance. Given the numerous payments subject to the bulk Regulation 9 approval, DEEWR could have more thoroughly demonstrated the basis for the two approvers' decision. For example, by documenting supporting information considered by the delegate at the time of the approval.

3.32 The new Regulation 9 approval approach removes the need for DEEWR state and territory managers to record individual Regulation 9 approvals for each CSP funding agreement. In this respect, DEEWR acknowledged the importance of these managers being able to assure themselves that Regulation 9 approval is in place and that there are sufficient funds available, before entering into funding agreements. DEEWR is considering how best to inform managers about available funding as part of the CSP Program Administration Improvement Project.

3.33 FMA Regulation 10 approval involves seeking the Finance Minister's (or delegate's) written agreement for arrangements not supported by a budget appropriation. FMA Regulation 10 authorisation most commonly arises in relation to multi-year spending proposals. The only multi-financial year CSP funding agreements are for approved OSHC services. For these agreements, approval under FMA Regulation 10 was made for 2010–11 and 2011–12.

Administering the program through funding agreements

3.34 Funding agreements establish understanding between both parties of their respective obligations, such as the payment rates and timing; how funding should be used; and reporting requirements. The ANAO assessed whether a funding agreement had been completed for the sample of eligible services, and whether the agreements clearly set out the terms and conditions for Australian Government funding.

3.35 For the sample of child care service files collected for the 2010–11 financial year, a funding agreement had been entered into in all cases where

⁶¹ The Regulation 9 approval states that expenditure is approved under the *CCSSP Guidelines 2011–12*. However, as discussed in paragraph 2.38 these guidelines were not finalised.

the service was eligible for assistance. The funding agreements comprised: a letter of offer for funding; terms and conditions; and one activity schedule for each type of child care service funded by DEEWR. The funding agreements prescribed allowable uses of funding⁶², imposed reporting obligations on funding recipients, and enabled DEEWR to withhold funding if the service did not meet its reporting obligations.

3.36 For the 2010–11 financial year, DEEWR reduced the number of funding agreements through the introduction of multi-schedule funding agreements, which allow a provider to enter into a single funding agreement for multiple services.⁶³

Payments

3.37 Following approvals being made and the completion of funding agreements, initial payments are made to services as per those agreements. Subsequent payments are generally made upon receipt of utilisation reports in which services report the number of hours of care provided to children.

3.38 Establishment assistance is paid in full upon DEEWR and the provider entering into a funding agreement.⁶⁴ Sustainability assistance payments are generally made in quarterly, monthly or weekly instalments, with even proportions of assistance provided throughout the year.

3.39 The ANAO tested the accuracy of sustainability assistance payments made to LDC services, finding that the majority of payments either aligned with funding amounts as per the CSP guidelines, or differed from those amounts for appropriate reasons.⁶⁵ Out of over 800 individual LDC payments, only four payments were found to be inaccurate, with three very minor rounding errors and one payment made at the incorrect remoteness rate.

⁶² In outlining allowable uses for funding, DEEWR states that providers can use the assistance for the day-to-day costs of establishing or operating the service, and lists a number of items that the funding may not be used for.

⁶³ See paragraph 4.16 for discussion of multi-schedule funding agreements in relation to funding acquittal processes.

⁶⁴ Services must notify the department in writing that they have commenced providing care within 10 business days of commencing operations.

⁶⁵ The ANAO chose to assess LDC payments because it could readily compare payment amounts to 'allowable amounts' as per the funding agreements, due to the stepped nature of payment amounts.

Using IT systems

3.40 The capacity of DEEWR staff to deliver CSP payments efficiently depends on the effectiveness of IT systems, and the ability of staff to use the systems. Effective IT systems can also facilitate funding recipient interactions with a program and streamline the collection, analysis and reporting of program data. The ANAO examined the effectiveness of DEEWR's use of the Department of Families, Housing, Community Services and Indigenous Affairs' Online Funding Management System (FOFMS) to support both CSP administrators and child care providers. FOFMS is a system built by FaHCSIA which has been used by DEEWR since December 2007, when responsibility for early childhood and childcare programs was transferred to DEEWR from FaHCSIA.⁶⁶

3.41 DEEWR uses FOFMS, and its external interface, known as the Child Care Management System (CCMS), for a number of child care initiatives and programs, including facilitating CCB and Child Care Rebate (CCR)⁶⁷ payments to providers and parents (worth an estimated \$4.2 billion in 2011–12).

Use of FOFMS to support DEEWR staff

3.42 DEEWR staff use FOFMS to assist in performing several CSP functions, including drafting funding agreements; monitoring achievement of reporting milestones by providers; calculating, approving and releasing payments; and storing and reporting information.⁶⁸

3.43 Several CSP staff commented that the system did not fulfil all their contract management needs, such as providing milestone reminders, and offered limited reporting capability. As a result, some staff in state offices maintained separate spreadsheets to perform these functions. However,

⁶⁶ The two departments currently have a Memorandum of Understanding (MoU) in place to guide the provision of information and technology services, spanning 2010 to 2013. Given the range of other child care initiatives and programs associated with the MoU, the design and operation of the MoU was not considered as part of this audit.

⁶⁷ The CCR is a payment made by the Australian Government, additional to CCB, to assist eligible working families with 50 per cent of the out-of-pocket cost of child care, up to a maximum amount per child per year.

⁶⁸ DEEWR advised that it is currently working on a project to implement a child care 'data cube' to enhance its ability to analyse child care data.

DEEWR staff responsible for FOFMS advised that the system could in fact perform the required contract management and reporting capabilities.

3.44 DEEWR staff interviewed were also of the opinion that insufficient training was available to assist new staff to efficiently learn and use the full capabilities of the system. The uncertainty about the capabilities of FOFMS highlights the need for tailored training for staff that use the system.

3.45 The ANAO undertook basic reasonableness and completeness checks of CSP data extracted from FOFMS, for 2010–11 and 2011–12. The ANAO found some minor data integrity issues, such as a small number of blank payment types fields or the misclassification of those fields.⁶⁹

3.46 DEEWR advised that improvements in its use of the funding management system and the identification of IT training requirements will be considered as part of the CSP Program Administration Improvement Project. Additionally, the CCMS/FOFMS Enhancements Advisory Group was formed in 2011 to ensure a coordinated approach to the administration and training of staff in the use of FOFMS.

Provider use of the Child Care Management System

3.47 Child care providers that are CCB-approved submit child, enrolment and attendance information over the Internet⁷⁰ to the CCMS. The CCMS is the external provider interface to FOFMS. All approved child care services have been using the CCMS for CCB and CCR purposes since June 2009.

3.48 FDC and IHC providers advised that the CCMS generally worked well for their CSP purposes. They reported that the CCMS had both reduced their CSP reporting burden, as a result of the automated use of their CCB attendance reporting, and enabled the delivery of payments in a more timely manner (weekly or fortnightly after the submission of attendance data, rather than quarterly). DEEWR plans to transition centre-based providers to automated reporting from July 2012.

⁶⁹ The 2010–11 ANAO performance audit of *Multifunctional Aboriginal Children's Services (MACS) and Crèches* also identified errors in data extracted and analysed from FOFMS, which 'raised questions about overall data integrity' (Audit Report No.8, 2010–11, p. 51). At the time, DEEWR advised that: 'it has identified this as a risk and that regular staff training is an important risk mitigation strategy'.

⁷⁰ Child care providers submit information to the CCMS with the assistance of one of over 20 'approved' software packages.

3.49 However, most child care providers interviewed raised CCMS ‘connectivity’ issues which were delaying CCB and CSP payments. In particular, since system changes were implemented in June 2011, the providers had intermittently experienced difficulties in connecting their software package and the CCMS in order to submit attendance data.⁷¹ This had delayed some payments for a short period for some providers. It also created additional work, as service staff had to make multiple connection attempts, or spend time on the phone obtaining IT support.

3.50 DEEWR advised that the CCMS connectivity issues were partly the result of high volumes of transactions at certain times. In response, FaHCSIA has increased IT capacity in order to better manage peak periods.

Conclusion

3.51 DEEWR has built awareness of the CSP through publicly available guidance, and by advising child care providers about the program as part of general child care approval processes. In addition, the CSP application processes were suitably designed and provided relevant information for DEEWR to make eligibility assessments.

3.52 For a sample of provider applications and funding agreement files, DEEWR’s assessments of eligibility appropriately recommended services for funding in a timely fashion. There would, however, be merit in DEEWR strengthening its documentation of service assessments in some areas. These include providing better visibility that all of the CSP’s universal eligibility requirements were checked, identifying who conducted the assessment, and when it was completed.

3.53 A funding agreement had been completed for all of the sampled files where the service was eligible for CSP assistance. The ANAO tested the accuracy of payments made to LDC services⁷², finding that the overwhelming majority of payments either aligned with amounts as per the program guidelines, or differed from those amounts for appropriate reasons.

⁷¹ The providers interviewed by the ANAO (around November 2011) advised that they had experienced the issues since system changes were made in June 2011. It appears that the issue became particularly acute for three to four weeks in late January and early February 2012.

⁷² The ANAO assessed LDC payments because payment amounts could be readily compared to ‘allowable amounts’ as per the funding agreements, due to the stepped nature of payment amounts.

4. Monitoring and Reporting the Performance of the Program

This chapter examines DEEWR's: monitoring of providers' compliance with funding agreements; establishment of performance measures and monitoring program performance; reporting of program performance; and evaluation of the CSP.

Introduction

4.1 A sound monitoring and reporting regime is an important element in the effective administration of government programs. Monitoring is important throughout the life of a program, from implementation through ongoing management and post-implementation evaluation. It enables administering agencies to determine the extent to which funded organisations are complying with the terms, conditions and rules established in funding agreements and program guidelines. Effective monitoring also enables agencies to assess progress towards achieving program objectives, and report to stakeholders on program performance.

4.2 The ANAO examined DEEWR's:

- monitoring of providers' compliance with funding agreements;
- establishment of performance measures and monitoring of program performance;
- reporting on program performance; and
- evaluation of the program.

Monitoring of providers' compliance with funding agreements

4.3 Monitoring of program delivery by funded organisations helps departments to determine the extent to which they are complying with funding agreements and program guidelines. For the CSP, DEEWR has compliance processes which primarily rely on self-reporting by child care providers. DEEWR uses providers' reports to monitor their adherence to the terms and conditions of the funding agreements.

Service provider reporting

4.4 The CSP reporting required from service providers depends on the assistance and care type. CSP reporting includes:

- utilisation reports, which include information about the number of child care places used by children (required for all care types and tied to payments);
- twice-yearly activity reports, which include information about the service's child care activities (FDC, IHC and OCC only); and
- an annual financial acquittal (required for all care types).

Utilisation reporting

4.5 All service providers receiving sustainability assistance must report on the total number of hours charged for all children in the reporting period, and the number of weeks that the service provided care. This information is used to determine a service's number of equivalent full-time places for the period, based on which payment amounts are calculated.

4.6 Up to June 2011, providers of CCB-approved FDC and IHC services received quarterly sustainability payments following the submission of a quarterly utilisation report. From July 2011, DEEWR began using the CCB attendance data submitted by these providers of FDC and IHC services to calculate payments, which meant that providers were no longer required to submit quarterly CSP utilisation reports. These providers instead receive funding automatically upon submission of CCB attendance data (usually weekly or fortnightly). As noted in paragraph 3.48, FDC and IHC providers interviewed by the ANAO appreciated the streamlining of their reporting to the department.

4.7 Up to June 2012, utilisation for centre-based care was reported by providers each quarter. Staff in DEEWR state offices then entered this information into FOFMS and calculated and approved the associated payments. From July 2012, DEEWR also automated centre-based CSP service reporting. The streamlining of reporting arrangements pursued by DEEWR highlights the benefits of coordinating monitoring arrangements, where appropriate, for related programs.

4.8 The ANAO examined a sample of 117 child care services' 2010–11 and/or 2011–12 CSP files. For the sampled files, the ANAO observed that DEEWR state staff: had generally sent out reporting templates in a timely

fashion; appropriately checked that received reports had been correctly completed; and where necessary, sought clarification from child care providers. Staff had also adjusted or ceased payments, when appropriate. For example, where changes in a service's utilisation meant that the service was eligible for a different level of assistance or was no longer eligible for CSP assistance.

4.9 Given that utilisation reports are used to determine payment amounts, it is important the information reported is reliable. During the audit, staff from DEEWR's state offices advised that as part of CCB compliance checks they also considered any relevant issues for CSP payments, particularly issues relating to attendance records. In this respect, in 2011, DEEWR reviewed its administration of CCB payments, approvals and compliance. The report recommended that DEEWR consider implementing a compliance program for the CSP that leverages off the CCB compliance program. DEEWR advised that CSP compliance activities were being considered as part of the CSP Program Administration Improvement Project.

Activity reporting

4.10 FDC and IHC providers are required to report twice-yearly on aspects of their activities, including: service details; various characteristics of educators and children in care; and participation in other DEEWR child care programs. This reporting provides DEEWR with additional information on the provision of FDC and IHC services.

4.11 Over the past few years, DEEWR has, in various forms, summarised the data from activity reports to collate program and policy information by care types. However, for the most recent activity report period (July to December 2011) DEEWR has not collated information from activity reports as it was reviewing the format and types of information collected.

4.12 Over time, DEEWR has changed the questions included in activity reports, seeking to limit the questions asked to those that DEEWR had drawn upon for its monitoring. However, in doing so, DEEWR has omitted some questions which may prove a useful source of program information. For example, the ANAO noted the omission of the only question relating to services' viability and sustainability in the second half of 2010–11. Information from providers regarding the viability and sustainability of services has clear relevance to the objective of the CSP, in particular in relation to the areas in which the market would otherwise fail to provide services. Such information would assist DEEWR to better understand, and track over time, the challenges

which CSP providers face in relation to services. To this end, there would be benefit in DEEWR revisiting the information it seeks from activity-based reporting.

Financial acquittal reporting

4.13 Financial acquittal processes seek to provide assurance that program funding is spent for purposes consistent with the funding agreements and program objectives. The type of acquittal DEEWR requires from child care providers depends on the total value of the funding agreement:

- if the total value of the agreement is greater than or equal to \$100 000, DEEWR requires an audited financial acquittal report. Only an independent and approved auditor or accountant can provide an audited financial acquittal in accordance with the Australian Accounting Standards; and
- if the total value of the agreement is less than \$100 000, DEEWR requires a certified financial acquittal report. A certified acquittal does not need to be independently verified and can be certified by an authorised officer of the organisation.⁷³

4.14 Under the funding agreements for 2010–11, acquittal reports were to be submitted by providers within six months of the end of the funding agreement period. Although payments are not tied to acquittals, the funding agreement includes provisions for DEEWR to suspend further payments for a service, if an acquittal is not provided.

4.15 Information provided by DEEWR from FOFMS for 2010–11 indicated that of the 1918 financial acquittal milestones due to be completed by 31 December 2011, 258 milestones (13 per cent) remained incomplete as at April 2012. DEEWR advised that incomplete acquittal milestones may be caused by unsatisfactory acquittal reports and that it was continuing to work with the relevant providers.

4.16 In designing acquittal arrangements it is important that any unnecessary administration burden is avoided. Prior to 2010–11, providers with multiple services were required to enter into funding agreements for each

⁷³ DEEWR supplies templates for both types of acquittals to assist providers fulfil their acquittal requirements under their agreements.

type of care that they operated and for each type of assistance they received. As mentioned in paragraph 3.36, in 2010–11, DEEWR transitioned child care providers with more than one service to a single multi-schedule funding agreement incorporating multiple services.⁷⁴ Under multi-schedule agreements, the provider is required by DEEWR to separately acquit each service listed in the agreement. However, the type of acquittal required for all services is dependent on the total value of the multi-schedule agreement, not the individual value of funding to each service.

4.17 One provider on a multi-schedule funding agreement advised the ANAO that because their total funding exceeds \$100 000, they have to bear the costs of numerous separate audited acquittals, including for services which receive relatively small amounts of funding. The provider gave the example of one of their OSHC services which was receiving approximately \$3000 in total funding, but for which they now spent around \$800 for an audited acquittal.

4.18 While the move to multi-schedule funding agreements has reduced the number of funding agreements for a range of service providers, in a small number of these cases, the new acquittal requirements also impose an additional burden. There would be benefit in DEEWR reviewing its approach to audited acquittals where a provider receives more than \$100 000 and also operates multiple small services.

Establishing performance measures and monitoring program performance

Establishing performance measures

4.19 Performance information assists administrators to draw informed conclusions about performance and take corrective action, where necessary. It contributes to timely and effective decision-making on policy and program delivery issues, and to the accountability of agencies for their performance.

4.20 The ANAO examined the performance information framework for the CSP in the Portfolio Budget Statements (PBS) for the Education, Employment

⁷⁴ Multi-schedule funding agreements were developed in response to a recommendation of an internal audit in 2008–09. The recommendation stated that DEEWR should 'review the current need for multiple agreements for child care service operators, which is based on the types of payments that they receive, and seek opportunities to consolidate these agreements'.

and Workplace Relations portfolio. The audit also considered the extent to which DEEWR had developed internal performance information arrangements for the program.

4.21 In accordance with the Australian Government's budget reporting framework, PBS deliverables and key performance indicators are required to be established for each program.⁷⁵ Deliverables represent the goods and services produced and delivered by the program in meeting its objectives, while key performance indicators demonstrate the performance of the program in achieving its objectives and contributing to its respective outcome. Consequently, agency annual reporting on program performance provides stakeholders, including the Australian Government, with an indication of the relative success of a particular program (see paragraph 4.34 for information about program reporting).

4.22 For the 2012–13 PBS, DEEWR has two key deliverables that specifically relate to the CSP payments. These are the number of services receiving establishment assistance; and the number of services receiving sustainability assistance. However, DEEWR has no key performance indicators which specifically relate to the CSP in the PBS. In addition, DEEWR has not established internal performance measures to monitor various aspects of the CSP's performance.

Monitoring of the program's performance

4.23 Monitoring program performance is important to help administering agencies review program progress, and where necessary adjust delivery approaches. The ANAO assessed DEEWR's program monitoring, including the monitoring of program expenditure, program performance, and the conduct of a series of program reviews.

Program expenditure

4.24 One of the key risks to be managed for an entitlement program is the possibility of the program budget being exceeded. DEEWR manages the demand-driven nature of CSP funding by monitoring expenses each month against a notional budget, and in relation to the funding appropriation for the

⁷⁵ Department of Finance and Deregulation, 2012, *Guidance for the Preparation of the 2012–13 Portfolio Budget Statements*, pp. 34–38.

Child Care Service Support Program (CCSSP)⁷⁶, of which the CSP is a part.⁷⁷ For the last three financial years, actual CCSSP expenditure has been slightly less than the funding appropriated. Towards the end of the last three financial years, DEEWR estimated CCSSP expenditure for the year and briefed the Minister, outlining a relatively small anticipated underspend, and proposing a number of priority projects to use the funding that broadly aligned with the intent of the CCSSP.⁷⁸

4.25 DEEWR's monthly monitoring of CSP expenditure is largely done manually. Responsible staff combine data extracts from a financial management information system (not FOFMS) into a spreadsheet, from which expenditure can be determined. DEEWR staff responsible for the FOFMS system indicated that this may be an area where improved awareness of the system's reporting capabilities, and greater staff training, could offer opportunities to further automate the process.

Program performance

4.26 As mentioned in paragraph 4.22, DEEWR reports against two key deliverables for the CSP, but has not established any additional measures with which to monitor the performance of the program. Relevant aspects of the program's performance which could inform the development of measures include:

- the national level of access to child care, and how that may differ by state and territory, or more local areas;
- whether the level of access, by care type, differs;
- the program's contributions to address areas where the market would otherwise fail to provide services;
- the proportion of program funding directed to targeted areas, such as rural and remote locations;

⁷⁶ Several of the CCSSP initiatives involve demand-driven funding.

⁷⁷ The CCSSP is funded by the Australian Government to support and promote access to quality child care and early learning for children, families and communities through strategies that complement the assistance provided to families through the CCB and CCR.

⁷⁸ For example, in 2009–10 there was an underspend of approximately \$30 million (approximately eight per cent of total CCSSP expenditure) which DEEWR used to fund projects relating to the six reform priorities identified as part of the National Early Childhood Development Strategy.

- the number of children using CSP-funded child care; and
- the number of CSP-funded services that cease to operate.

4.27 The introduction of the National Quality Framework (NQF), which is a significant regulatory change in the child care sector, is also relevant to program monitoring and performance. The NQF aims to raise quality and drive continuous improvement and consistency in education and care services. The NQF began to take effect on 1 January 2012 with key requirements being phased in over time. Importantly, the framework requires higher educator-to-child ratios, higher qualified FDC and LDC service staff, and more stringent standards for the physical environment of child care services.⁷⁹

4.28 DEEWR has given limited consideration to monitoring the impact of the NQF in relation to the CSP. In particular, the need for child care services to have additional and more highly qualified staff has potential implications for service provision. As a consequence, it will be important that DEEWR monitors the NQF's impact specifically in relation to CSP services—particularly those that receive sustainability assistance.

4.29 DEEWR advised that enhancements to program monitoring are being addressed by the work of the CSP Program Administration Improvement Project, such as a revised risk management framework.

Reviews

4.30 Periodic reviews of programs by parties not involved in their administration are an important aspect of effective management and support continuous improvement. The CCSSP and the CSP have been subject to a number of internal and external reviews, including four larger, and two smaller reviews.⁸⁰ The ANAO examined key findings from the reviews and whether DEEWR had implemented recommendations. The larger reviews were:

⁷⁹ DEEWR advised that the Australian Government considers that the impact of the national quality reforms on families will be modest. Modelling showed that, as a result of the NQF, the average out-of-pocket cost increase for a family with one child attending full-time long day care and on an annual income of \$80 000 would be \$8.67 per week by 2014–15. Source: Council of Australian Governments, *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, December 2009.

⁸⁰ The two smaller reviews were an internal audit in 2009 of the accuracy and completeness of CSP contract management, payment and acquittal processes; and another internal audit in 2010–11, on acquittals related to Early Learning Care Centres and LDC Sustainability Assistance.

- the ANAO Audit Report, No.47 2005–06 *Funding for Communities and Community Organisations*;
- a DEEWR Internal Audit Report 2008–09 *Child Care Services Support Program (CCSSP)*; and
- the ANAO Audit Report, No.8 2010–11 *Multifunctional Aboriginal Children's Services (MACS) and Crèches*.

4.31 In responding to these reviews, DEEWR has refined its administration of the CSP, including by making changes to the format of funding agreements and financial acquittal requirements. However, there remain some areas in which recommendations have not been fully actioned. For example, a recommendation to 'develop an appropriate evaluation process to confirm the need for and appropriateness of CSP funding against program outcomes and objectives'⁸¹ has not been actioned, and relates to issues identified by the ANAO in this current audit.

4.32 DEEWR has also initiated the CSP Program Administration Improvement Project which is currently in progress, and is expected to finish in late 2012. The project is to review internal program management and administration arrangements for the CSP. Project deliverables include revised program and operational guidelines, recommendations for improvements to current funding agreements and reporting templates, and a revised risk management plan.

Reporting program performance

4.33 Effective performance reporting informs stakeholders about program performance, and provides useful information for improving program administration. The ANAO examined DEEWR's external reporting on the CSP.

4.34 Agency portfolio budget statements and annual reports are a key vehicle for reporting program performance to the Parliament and the public. Agencies report against deliverables and performance indicators to demonstrate activities and the contributions of programs towards outcomes. Appropriate performance indicators have a clear and direct link to a program's

⁸¹ DEEWR Internal Audit Report, 2008–09, *Child Care Services Support Program*, p. 5.

objective and are useful when they are also specific, measurable, achievable, relevant and timed.⁸²

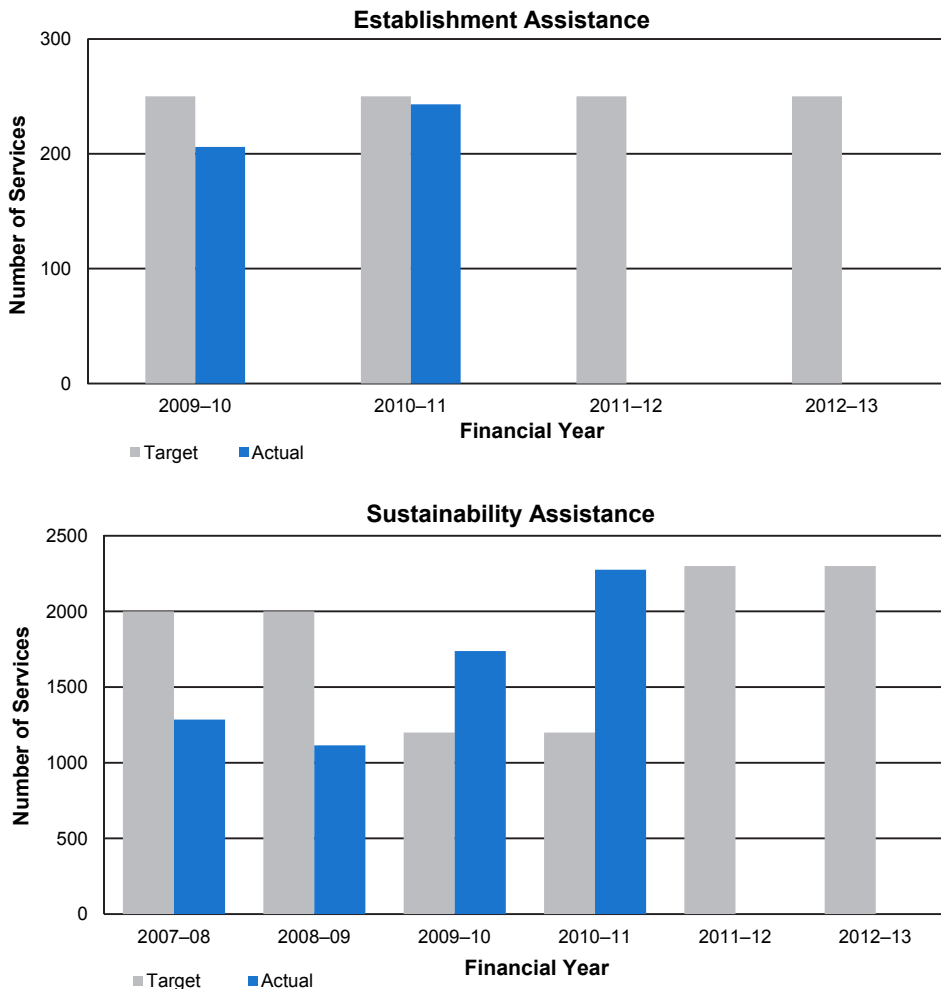
4.35 The ANAO examined the performance information in DEEWR's portfolio budget statements and annual reports from 2007 onwards (when DEEWR assumed responsibility for the CSP). As noted in paragraph 4.22, DEEWR has two deliverables relating to CSP funding:

- the number of services that received establishment assistance in the financial year (reported since 2009); and
- the number of services that received sustainability assistance throughout the financial year (reported since 2007).

4.36 Figure 4.1 shows DEEWR's reporting against the two deliverables, and their targets, since 2007–08. As can be seen, the number of services in receipt of establishment assistance grew over the two years it has been reported.⁸³ The number of services in receipt of sustainability assistance has grown steadily since 2008–09, with the target adjusted for 2009–10 and 2011–12.

⁸² ANAO Audit Report No.5, 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 47.

⁸³ Analysis of 2010–11 FOFMS data showed that 199 services received establishment assistance in 2010–11. This brought into question annual reporting figures, in which for 2010–11, DEEWR reported that 243 services received establishment assistance. DEEWR was unable to determine the reason for the discrepancy.

Figure 4.1**CSP deliverables**

Note: In 2009–10 the original Portfolio Budget Statement estimate of services receiving sustainability assistance (2000) was revised by DEEWR to 1200 later in the financial year.

Source: ANAO analysis of DEEWR Annual Reports and PBS.

4.37 For 2010–11, DEEWR revised the make-up of its sustainability assistance deliverable, stating that the deliverable now ‘includes family day care and in-home care schemes eligible for sustainability assistance. This is a more comprehensive measure of services assisted’. However, DEEWR was unable to advise the types of child care and assistance that were included in the deliverable prior to 2010–11. DEEWR advised that its 2011–12 annual reporting will include all relevant care and assistance types.

4.38 The original target for 2007–08 of the number of services to receive sustainability assistance was 2000. This target was revised down for 2009–10 to 1200 to better reflect the actual results of the two previous years. Similarly, in 2011–12, DEEWR adjusted the target upwards to 2300, to reflect the significant growth of the previous two and a half years. Given that in each of the four years from 2007–08 there has been a variation of some 30 per cent or more between estimated and actual results, DEEWR could improve its estimations, and make adjustments to its targets in a more timely manner.

Evaluating the program

4.39 Evaluation of a program can show whether, and to what extent, objectives are being met.⁸⁴ Evaluation of programs should be performed at appropriate points in time, such as on a periodic basis, or when major changes are made or are expected.

4.40 Since assuming responsibility for the CSP in late 2007, DEEWR has not evaluated the program's impacts and contributions towards its objective. As previously highlighted in Chapter 2, in order to evaluate and strengthen the effectiveness of the CSP funding, there is a need for DEEWR to analyse the child care market, including the areas where the market would fail to meet child care needs without CSP funding. DEEWR should also review the alignment of the targeting of CSP funding with the program objective. Finally, and as discussed in this Chapter, there is a need for DEEWR to establish performance measures that directly address the program objective, and to use those measures to continue to monitor and evaluate the program's effectiveness.

4.41 While it is generally important to measure the impact of any program, it is increasingly important for the CSP given it is now in its ninth year of operation, having been established in 2004. DEEWR could also consider the potential benefits of the conduct of a formal program evaluation, to contribute to a better understanding of the program's effectiveness. Improvements in these areas would also support DEEWR's child care policy advice, and its public reporting on the program.

⁸⁴ ANAO *Better Practice Guide—Innovation in the Public Sector: Enabling Better Performance, Driving New Directions*, December 2009, p. 35.

Recommendation No.2

4.42 To monitor and evaluate the effectiveness of Community Support Program funding, the ANAO recommends that DEEWR develop performance measures that directly address the program objective.

DEEWR response

4.43 Agreed. The Department will continue to enhance current performance measures to assist in measuring the effectiveness of the program.

Conclusion

4.44 For the CSP, DEEWR has compliance processes which primarily rely on self-reporting by child care providers. DEEWR uses providers' reports to monitor their adherence to the terms and conditions of the funding agreements. In particular, larger providers are required to provide an audited financial acquittal to provide assurance that program funding is spent appropriately. Over time, DEEWR has streamlined provider reporting arrangements and achieved a reasonable balance between the level of assurance obtained from provider reports, and the associated workload for those providers and DEEWR.

4.45 In oversighting delivery of the program, DEEWR monitors the number of services receiving assistance and program expenditure—an important consideration given the demand-driven nature of the program. However, there is a need for DEEWR to establish performance measures which directly address the program's objective, and to use those measures to monitor and evaluate the program's performance. DEEWR could also consider the potential benefits of conducting a formal program evaluation, to contribute to a better understanding of the CSP's effectiveness. Improvements in these areas would support DEEWR's child care policy advice, and its public reporting on the program.



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Auditor-General

Canberra ACT
3 October 2012

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