

The Auditor-General
Audit Report No.8 2010–11
Performance Audit

Multifunctional Aboriginal Children's Services (MACS) and Crèches

**Department of Education, Employment
and Workplace Relations**

Australian National Audit Office

© Commonwealth
of Australia 2010

ISSN 1036-7632

ISBN 0 642 81152 0

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth.

Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright
Administration
Attorney-General's Department
3-5 National Circuit
Barton ACT 2600

<http://www.ag.gov.au/cca>



Canberra ACT
23 September 2010

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. The report is titled Multifunctional Aboriginal Children's Services (MACS) and Crèches.

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

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name and title.

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

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Dr Andrew Pope
Andrew Huey
Phillip Taylor

Contents

Abbreviations.....	7
Glossary	8
Summary and Recommendations	11
Summary	13
Introduction	13
Audit objective and methodology	14
Overall conclusion.....	15
Key findings by chapter.....	17
Summary of agency response	23
Recommendations	25
Audit Findings and Conclusions	27
1. Introduction	29
Background	29
History of Indigenous childcare services.....	32
Program and management arrangements–Indigenous childcare services	33
Funding model for Indigenous childcare services.....	34
Internal audit of the Child Care Services Support Program.....	35
Audit objectives and methodology	36
2. Program Administration.....	38
Introduction	38
Program objective and rationale	38
DEEWR’s administrative arrangements.....	41
Child care funding models	43
Transitioning service providers to mainstream funding	45
3. Managing Service Provider Funding Agreements	47
Introduction	47
Indigenous childcare services’ funding agreements.....	47
Role of DEEWR funding agreement managers.....	48
Administrative issues associated with the contract management system	51
Challenges of delivering childcare services in remote and very remote Indigenous communities	52
4. Monitoring and Reporting Performance	55
Introduction	55
Measuring the performance of the BBF sub-program	55
Service provider reports	57
A risk based approach to monitoring service providers	61

Appendices 63

Appendix 1: Formal Comments on the Proposed Report.....	65
Appendix 2: Types of childcare	69
Series Titles.....	71
Current Better Practice Guides	72
Index.....	74

Tables

Table S1	Location of MACS and crèches as at July 2010	14
Table 1.1	Indigenous childcare service types	30
Table 1.2	Location of MACS and crèches as at July 2010	31
Table 2.1	Program objective of CCSSP, CSP and BBF sub-program	39
Table 4.1	Reports required from service providers in receipt of \$80 000 or more in operational funding	58
Table 4.2	Service provider reporting for 2008–09 funding agreements	59

Figures

Figure 1.1	History of MACS and crèches	33
Figure 1.2	DEEWR program structure for the Child Care Services Support Program	34

Abbreviations

ANAO	Australian National Audit Office
BBF	Budget Based Funding
CCB	Child Care Benefit
CCSSP	Child Care Services Support Program
CSP	Community Support Program
DEEWR	Department of Education, Employment and Workplace Relations
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FOFMS	FaHCSIA Online Funding Management System
MACS	Multifunctional Aboriginal Children's Services
OECECC	Office of Early Childhood Education and Child Care
OSHC	Outside School Hours Care

Glossary

BBF	Budget Based Funding. A sub-program of the community support stream of the Child Care Services Support Program. This funding is available to meet the operating costs of an early childhood education and childcare service where the market would otherwise fail to deliver mainstream childcare.
CCB	Child Care Benefit. A payment made by the Australian Government to families to assist with the cost of approved childcare.
CCSSP	Child Care Services Support Program. The program that supports and promotes access to quality childcare for children, families and communities through strategies that complement the assistance provided to families through Child Care Benefit and Child Care Rebate.
Crèches	Crèches provide a centre-based flexible form of childcare where other forms of childcare are not available. They offer culturally appropriate childcare programs and provide families with an introduction to early learning and childcare opportunities. Crèches established before 2008 were known as Jobs Education and Training (JET) Crèches. These were established to assist eligible unemployed parents wanting to undertake study, work or job search activities to help them re-enter the work force.
CSP	Community Support Program. Provides a range of payments designed to support access to childcare for children and families where the market would otherwise fail to provide childcare services.

Multifunctional Aboriginal Children's Services	Multifunctional Aboriginal Children's Services (MACS) are not-for-profit community based services funded to meet the educational, social and developmental needs of Aboriginal and Torres Strait Islander children. Long day care is provided for children not yet attending school with each MACS providing at least one other form of childcare or activity, such as outside school hours care (OSHC), playgroups, nutrition programs and/or parenting programs based on local needs.
--	---

Summary and Recommendations

Summary

Introduction

1. Multifunctional Aboriginal Children's Services (MACS) and crèches are two types of Indigenous childcare services that are directly funded by the Australian Government through discretionary grants.¹ MACS are community-based services that provide long day care and at least one other form of childcare or activity, such as outside school hours care, playgroups, nutrition programs and/or parenting programs. Crèches provide culturally appropriate childcare programs over flexible hours based on the needs of the Indigenous communities where they operate.
2. The Australian Government first funded MACS and crèches in 1987 and 1989 respectively. In the 1990s, the number of MACS and crèches was expanded and additional funding was provided to a range of organisations to deliver Indigenous childcare services.² In 2003, the Australian Government consolidated the direct funding provided for Indigenous childcare services under the Budget Based Funding (BBF) sub-program.
3. The Department of Education, Employment and Workplace Relations (DEEWR) manages the broader Child Care Services Support Program (CCSSP), of which the BBF sub-program is a part.³ The Office of Early Childhood Education and Child Care (OECECC) within DEEWR is responsible for administering early childhood education and childcare programs.
4. The Australian Government provides the major component of operational funding for Indigenous childcare services through direct funding to service providers. During 2009–10, the Government funded the operation of 268 Indigenous childcare services at a cost of \$44.2 million. This included \$20.7 million in funding for 33 MACS and 36 crèches.

¹ MACS, crèches and other Indigenous childcare services directly funded by the Australian Government are formally referred to as Indigenous non-mainstream services.

² The types of organisations funded to provide Indigenous childcare services include Indigenous corporations, shire councils and not-for-profit organisations.

³ The CCSSP was transferred from the Department of Families, Housing and Community Services and Indigenous Affairs to DEEWR in December 2007, as part of a machinery of government change. Commonwealth of Australia, *Administrative Arrangements Order, No S251*, 3 December 2007.

5. Service providers are funded on the basis that they operate in areas where access to mainstream or conventional childcare services is not available or commercially viable, and where there is a need for culturally competent services that meet the needs of the local Indigenous people. Table S1 outlines the location of MACS and crèches by state and territory and remoteness classification.

Table S1

Location of MACS and crèches as at July 2010

Location	Very Remote	Remote Australia	Outer Regional Australia	Inner Regional Australia	Major Cities of Australia	Totals
Australian Capital Territory				1		1
New South Wales				6	3	9
Northern Territory	27	6		1		34
Queensland		2		1		3
South Australia	5		1	1	2	9
Tasmania			1			1
Victoria			2	3	1	6
Western Australia	1	2	1		2	6
Totals	33	10	5	13	8	69

Source: DEEWR.

Audit objective and methodology

6. The audit examined the effectiveness of DEEWR's administrative arrangements supporting the delivery of Indigenous childcare services through MACS and crèches, including the approaches DEEWR uses to monitor the achievement of the BBF sub-program objective.

7. In conducting the audit, the Australian National Audit Office (ANAO) reviewed three key areas:

- program administration—DEEWR's administrative systems and processes supporting the delivery of Indigenous childcare services through MACS and crèches and the broader BBF sub-program;
- management of service provider funding agreements—DEEWR's systems and processes for managing MACS and crèche service providers' funding agreements; and
- monitoring and reporting performance—the effectiveness of DEEWR's processes for monitoring the performance of service providers, and the achievement of the outputs and outcomes of the BBF sub-program.

8. The ANAO sought not to duplicate the work of DEEWR's Internal Audit function, and in doing so referred to the findings of the recent internal audit review of the CCSSP, where these were relevant and appropriate.

Overall conclusion

9. The Australian Government funds a range of Indigenous childcare services including Multifunctional Aboriginal Children's Services (MACS) and crèches. MACS and crèches are community based childcare services provided in Indigenous communities across Australia, mainly in remote and very remote areas. During 2009–10, the Australian Government funded the operation of 268 Indigenous childcare services at a cost of \$44.2 million. This included \$20.7 million in funding for 33 MACS and 36 crèches.

10. Indigenous childcare services play an important role in communities and provide access to a range of services, including: childcare, early childhood education, primary health care and family support. Indigenous members of the community may also have the opportunity to gain employment in childcare and to engage in early childhood training.

11. Since taking responsibility for the administration of childcare services following a machinery of government change in December 2007, the Department of Education, Employment and Workplace Relations (DEEWR) has worked to improve the management of the Child Care Services Support Program (CCSSP). This has resulted in the development of a management framework supporting the provision of Indigenous childcare services. The framework includes operational guidelines for use by DEEWR staff, program guidelines for service providers and a revised performance management

framework. In particular, the program guidelines have provided a basis for the more consistent management of the Budget Based Funding (BBF) sub-program and have assisted service providers to better understand their role and responsibilities as well as DEEWR's administrative and reporting requirements.

12. The objective of the BBF sub-program is to provide access to childcare in communities where mainstream or conventional childcare services are not available or viable, and where there is a need for culturally competent services. Most MACS and crèches are funded to operate in outer regional, remote and very remote areas of Australia where it is reasonable to expect that these conditions can be met. However, 12 per cent of services are located in major cities with a further 19 percent in inner regional areas, where mainstream childcare services are accessible.

13. In order to measure the extent to which a program or sub-program is effectively delivering its objectives, it is important that key terms are appropriately defined for the benefit of all stakeholders. In relation to Indigenous childcare services, DEEWR would be better positioned to assess the contribution that the current services are making to the BBF sub-program objective if an agreed understanding of access, availability, viability and culturally competent was available. This common understanding would assist DEEWR to develop key performance indicators that support an assessment of the achievements of the BBF sub-program. This, in turn, would support clear and consistent decisions about the administration of the BBF sub-program and related services and provide guidance to DEEWR staff working in this area.

14. Budget Based Funding is provided to MACS and crèches through single-year funding agreements. The funding model and agreements allow DEEWR to influence the activities of funded organisations. Increasing the flexibility of the funding model to account for demographic changes and varying how the funding can be used, would assist service providers in better meeting the childcare needs of Indigenous communities. To aid service providers in their longer term planning for childcare service delivery and to reduce the administrative compliance burden, DEEWR could also consider transitioning service providers from single to multi-year funding agreements.

15. In supporting the delivery of Indigenous childcare services in remote and very remote Indigenous communities, DEEWR faces a number challenges, such as the availability of staff with relevant skills and experience. To overcome some of these challenges, a number of DEEWR funding agreement

managers actively support the delivery of Indigenous childcare services in communities by assisting service providers to prepare budgets and reports, and develop childcare capacity in the local workforce. However, providing this level of support is outside of the stated role of funding agreement managers. To provide an appropriate level of support to service providers, there would be benefit in DEEWR determining the current extent of funding agreement managers' involvement in such supporting activities and, if appropriate, providing relevant training and support for them.

16. DEEWR has implemented a revised performance management framework for the CCSSP. The performance management framework assists DEEWR in measuring the activities and outputs of the BBF sub-program, including MACS and crèches. However, further developing the framework to incorporate effectiveness/outcome indicators would enhance DEEWR's understanding of the extent to which the Indigenous childcare services are delivering quality childcare outcomes. The Community Support Program and BBF sub-program objectives are output-focused and are achieved by providing physical access to childcare services, without consideration of the quality of the services provided.

17. ANAO has made four recommendations aimed at improving DEEWR's administration of Indigenous childcare service delivery through MACS and crèches.

Key findings by chapter

Program Administration (Chapter 2)

18. Effective program administrative arrangements support agencies in achieving their program objectives. In undertaking the audit, ANAO examined the effectiveness of DEEWR's administrative arrangements for MACS and crèches. Since December 2007, DEEWR has taken action to improve the administration of the BBF sub-program. The development of program and operational guidelines has provided a basis for the consistent management of the sub-program and assisted service providers to better understand their role and responsibilities, and DEEWR's administrative and reporting requirements. However, the ANAO identified several areas where further improvements to the management of the BBF sub-program, and in particular MACS and crèches, could be made.

Funding arrangements

19. Funding for MACS is determined on an historical allocation basis. The funding model is budget-based and does not take into account changes in demand for Indigenous childcare services, with the result that the level of funding to each childcare service provider has been relatively stable over time. The Australian Government first funded the operation of MACS and crèches in the late 1980s. Since that time there have been substantial demographic changes in the Indigenous population. For example, ABS census data indicates that between 1986 and 2006 the number of Indigenous children aged four and under increased from 31 852 to 55 566.⁴ In remote and very remote areas the number of Indigenous children aged four and under increased by 24 per cent between 1986 and 2006 to around 16 500 children. Over this same period the number and allocation of MACS and crèches has remained largely unchanged, with the exception of additional crèches funded as part of the Northern Territory Emergency Response (NTER).⁵

20. DEEWR uses single-year funding agreements to engage service providers to operate MACS and crèches. These agreements provide DEEWR with greater flexibility in administering the sub-program, but do create a significant administrative workload for both the department and service providers. Because the majority of MACS have been operated by the same service provider since their inception in the late 1980s, there would be merit in the department exploring the benefits of transitioning service providers from single-year to multiple-year funding agreements. This would reduce the administrative burden for both parties and provide greater certainty of funding for service providers to assist in their longer term planning for childcare service delivery.

Transitioning Indigenous childcare service providers to mainstream funding

21. In 2007, the Australian Government committed to transitioning 25 existing Indigenous childcare service providers to mainstream funding arrangements over four years.⁶ In June 2008, to better align Indigenous childcare service delivery with the government's broader Indigenous early

⁴ Australian Bureau of Statistics, Census, 1986 and 2006.

⁵ In 2009–10 as part of the NTER an additional \$15.2 million was allocated to upgrade 13 crèches and establish nine new crèches.

⁶ Australian Government, *A Better Future for Indigenous Australians - improved access to childcare and early childhood services*, Budget Measures 2007–08 Budget Paper No 2, p. 170.

childhood agenda, this funding was absorbed into the Indigenous Early Childhood Development National Partnership Agreement.

22. Several service providers indicated during discussions with the ANAO that they were capable of meeting the childcare standards for approved services⁷ and have the capacity to transition to mainstream funding. ANAO observed that five service providers were charging parents commercial or near-commercial rates for their childcare services. However, these parents/carers were not able to receive the Child Care Benefit or Child Care Rebate to reduce their childcare costs.

23. Transitioning MACS that are capable of meeting the childcare standards for approved services would potentially reduce the cost of childcare for parents and carers, and may allow for a reallocation of funding to other service providers. ANAO considers that there would be merit in DEEWR further exploring the option of transitioning selected MACS to mainstream funding as this would result in a saving for the BBF sub-program, which could be reinvested in either existing or new Indigenous childcare services. In examining this option DEEWR would need to give due regard to the benefits for parents/carers, potential changes in childcare service levels and the overall cost to the Australian Government.

Managing Service Provider Funding Agreements (Chapter 3)

24. The management of service provider funding agreements is the responsibility of the department's state and territory offices, with the primary point of contact being the designated funding agreement manager. The delivery of Indigenous childcare services is influenced by the effectiveness with which DEEWR funding agreement managers discharge their duties.

Management of funding agreements

25. DEEWR enters into funding agreements with organisations for the provision of Indigenous childcare services in one or more locations. The overall annual funding allocation to each childcare service is determined by the DEEWR national office, with service providers subsequently required to submit a service budget report for approval. The service budget details the

⁷ The Australian Government has developed a National Quality Framework and National Quality Standards for early childhood education and care. These are replacing the previous standards and regulations regimes. However, Indigenous childcare services are exempt from complying with the National Quality Framework and National Quality Standards but must comply with state and territory government regulations and licensing requirements where applicable.

annual estimated income and expenditure for the service. Once approved, service providers are expected to comply with the agreed budget.

26. The current form of the funding agreements enables DEEWR to influence the activities of Indigenous childcare service providers. Service providers are required to report expenditure variations to DEEWR in quarterly and half-yearly financial reports. DEEWR reviews and approves deviations from the service budget, and adjusts future payments to the service provider.⁸ Seasonal and short-term changes to the demand for, or operation of, individual services can create variances.

27. The existing administrative processes have limited flexibility and do not support all of the needs of service providers operating in remote and very remote areas. Affording service providers greater flexibility in how they use their funding would allow them to cater for local changes in demand and circumstances. An extension of this principle could include providing flexibility for service providers that have multi-schedule funding agreements to move a specified amount of funding between services. Affording service providers greater flexibility in how they use funding would need to be balanced by appropriate controls to make sure that quality childcare services are delivered in all locations.

Role of DEEWR funding agreement managers

28. The effective delivery of programs in remote and very remote communities may require government agencies to perform an expanded role beyond just the management of a funding agreement. The division between the roles of the government agency and the service provider can become blurred, with staff from government agencies providing additional support to service providers to assist them in meeting their contractual obligations.

29. The role of DEEWR funding agreement managers varies depending upon the specific needs of the service providers for which the manager is responsible. In urban and regional areas, funding agreement managers fulfil a role closely aligned to that of a contract manager. However, for service providers operating in remote and very remote communities, there is a need for funding agreement managers to have an understanding of local service

⁸ For example, unspent funds being shown in a quarterly or half-yearly financial report (or the annual acquittal report) may result in a reduced future payment being made by DEEWR rather than requiring a reimbursement from the service provider.

delivery issues and to provide additional support to assist in the provision of childcare services in the communities. In such cases, the role of the funding agreement manager includes a range of capacity building tasks designed to support the service provider. This may include assistance with administrative tasks such as budget preparation and reporting through to developing child care capability in the local workforce.

30. DEEWR has not specifically addressed its role, or the role of funding agreement managers, in relation to building the capacity of service providers. State and territory offices, and individual funding agreement managers, determine the extent to which they are involved in capacity building of service providers, and the nature and extent of that involvement. This makes it difficult for funding agreement managers to deliver a consistent level of support to service providers. There would be benefit in DEEWR determining the extent of funding agreement managers' involvement in supporting activities, such as capacity building, of service providers. If DEEWR decided on a broader approach, then an appropriate level of training and support would need to be provided to funding agreement managers.

Contract management system

31. DEEWR uses the FaHCSIA Online Funding Management System (FOFMS) to manage funding agreements for the BBF sub-program. FOFMS processes approximately \$2 billion per annum in Child Care Benefit and CCSSP payments. Payments to MACS and crèche service providers account for around two per cent of payments made through the system.

32. In managing MACS and crèche funding agreements, DEEWR requires a range of data, some at the individual service provider level. Analysis of this information assists with identifying anomalies and trends, and informs management decision making. In order to better meet its management information needs, DEEWR has advised that it is developing a data-warehouse to enable the improved sharing of BBF sub-program data.

Performance Monitoring and Reporting (Chapter 4)

33. The effectiveness with which DEEWR monitors service provider performance is a critical element in managing the BBF sub-program. DEEWR has implemented a revised performance management framework for the CCSSP and its components. The performance management framework assists DEEWR in measuring the activities and outputs of the BBF sub-program

including MACS and crèches. However, the framework could be further enhanced by including effectiveness/outcome indicators.

34. The BBF sub-program objectives are currently output-focused and relate to the provision of childcare services, without particular specification of the quality of the services provided. In assessing the performance of MACS and crèches and their contribution to the CCSSP, DEEWR assesses whether a service is being provided, but not the extent to which that service is delivering quality childcare outcomes.

Service provider reporting

35. Service providers are required to provide a series of reports to DEEWR in relation to their operation. At the time of audit fieldwork, service providers were required to submit eight to ten reports annually depending on the level of funding. In 2008–09, 72 per cent of service provider reports for MACS and crèches were submitted late. As a result, 67 per cent of payments made by DEEWR to service providers were approved after the date specified in the funding agreement.

36. DEEWR requires that service providers supply specific data to assist in the administration of the BBF sub-program. However, a significant proportion of data collected from service providers is retained within DEEWR state and territory offices on hard copy files. The information is not collated centrally or analysed to provide management information across the sub-program. DEEWR advised that as part of the 2010–11 funding agreements, service provider reporting requirements have been reduced to five reports, and where multi-schedule funding agreements⁹ are in place, only one financial acquittal report will now be required. DEEWR expects that these initiatives will improve service provider compliance and enable funding agreement managers to analyse the reported information and respond to emerging issues.

Monitoring service providers

37. Operating childcare services in remote and very remote Indigenous communities presents service providers with a range of challenges, from compliance issues through to retaining skilled staff. Having in place an administratively efficient monitoring framework, that is proportional to the

⁹ Multi-schedule funding agreements are where one organisation, for example a shire council, receives funding to operate more than Indigenous childcare service.

risk and scale of the funding and that provides timely information, is fundamental to the sound management of service providers.

38. At the time of the audit, DEEWR was in the process of developing a risk-based approach to its monitoring of service providers. This approach will include a risk assessment of each service provider and funded service with the results being used as a guide to the level of monitoring and ongoing support required from DEEWR. DEEWR has also recently commenced documenting administrative procedures, which should improve the guidance provided to staff involved in managing MACS and crèche funding agreements. Improvements to the central collection and analysis of Indigenous childcare services information may also help DEEWR detect instances where service levels vary from those expected.

39. The development of this enhanced approach is timely. In one instance noted by ANAO, a service provider continued to be funded for an extended period during which it did not operate an Indigenous childcare service. The decision to continue funding for the service provider was made by the funding agreement manager, rather than a delegated officer. The reasons for continuing funding were not documented. However, when asked to clarify this issue, DEEWR advised that the rationale to continue funding was:

- the need to cover ongoing administrative costs to maintain the childcare facility in readiness to be reopened;
- the need to support the recruitment of a new childcare coordinator; and
- that the service provider continued to meet their reporting obligations by submitting the required milestone reporting documents.

DEEWR subsequently advised that the service did not operate between July 2008 and August 2008, and again between January 2009 and February 2010 due to renovations.

Summary of agency response

40. The Department of Education, Employment and Workplace Relations (DEEWR) appreciates the opportunity to participate in the ANAO's performance audit of the Multifunctional Aboriginal Children's Services (MACS) and Crèches.

41. The ANAO's overall conclusion that since taking responsibility for the administration of MACS and Crèches, the Department has introduced more consistent management and encouraged a greater awareness of respective

roles and responsibilities by service providers, noting areas for further improvement is welcomed by DEEWR.

42. DEEWR notes that the ANAO's findings and recommendations primarily relate to improving program administration, funding agreement management and performance management and recognises the relevance of the recommendations to its current focus on continuous improvement in the administration of the BBF Program. Within current resourcing, and subject to the views of the incoming government, DEEWR plans to undertake internal program management reviews and, in consultation with key stakeholders, develop a revised funding model.

43. DEEWR agrees to the report's four recommendations.

Recommendations

Recommendation No.1
Paragraph 2.7

To assist DEEWR in making informed decisions about the ongoing administration of MACS and crèches and to assess the achievement of the sub-program objective, ANAO recommends that DEEWR:

- (a) provide definitions of the key terms access, availability, viability and culturally competent, used in the BBF sub-program objective; and
- (b) develops key performance indicators that are aligned with the BBF sub-program objective.

DEEWR's response: Agreed.

Recommendation No.2
Paragraph 2.22

In order for DEEWR to be more responsive to changes in demand for Indigenous childcare services and the performance of service providers, ANAO recommends that the department reviews its funding model for MACS and crèches to provide more flexibility in its application.

DEEWR's response: Agreed.

Recommendation No.3
Paragraph 3.14

To determine the appropriate level of support to service providers, ANAO recommends that DEEWR assesses the role of funding agreement managers (contract managers) and clarifies the extent of their expected involvement in supporting activities, such as building the capacity of Indigenous childcare service providers.

DEEWR's response: Agreed.

Recommendation No.4
Paragraph 4.7

To enable assessment of the quality of childcare services provided by MACS and crèches, ANAO recommends that DEEWR further develops its performance management framework to include effectiveness/outcome performance indicators.

DEEWR's response: Agreed.

Audit Findings and Conclusions

1. Introduction

This chapter details the background to Multifunctional Aboriginal Children's Services (MACS) and crèches as administered by the Department of Education, Employment and Workplace Relations. It also describes the audit objective and methodology.

Background

1.1 Multifunctional Aboriginal Children's Services (MACS) and crèches are two types of Indigenous childcare services that are directly funded by the Australian Government. MACS are community-based services that provide a combination of long day care and at least one other form of childcare or activity, such as outside school hours care, playgroups, nutrition programs and/or parenting programs.¹⁰ Crèches provide culturally appropriate childcare programs over flexible hours and provide Indigenous families with an introduction to early learning and childcare opportunities.¹¹ Crèches established prior to 2008 were known as Jobs Education and Training (JET) Crèches. These services were established to provide care for children of unemployed parents wanting to undertake study, work or job search activities to help them re-enter the work force.

1.2 MACS and crèches are generally operated by not-for-profit organisations and shire councils. Services are delivered predominantly in remote and very remote areas. In the majority of cases, these services are not approved for the purpose of administering the Child Care Benefit. Consequently, parents using these services are not eligible to receive either the Child Care Benefit or the Child Care Rebate.¹² The Government provides the major component of operational funding for MACS and crèches through direct funding to service providers. Families using MACS are generally charged a small fee, which is used to support operation of the services.¹³ While the fees

¹⁰ DEEWR, *Office of Early Childhood Education and Child Care Handbook 2008–2009*, p. 16.

¹¹ Office of Evaluation and Audit (Indigenous Programs), *Performance Audit of Indigenous Professional Support Units April 2009*, p. 22.

¹² Child Care Benefit helps families with the cost of child care for approved and registered childcare. CCB can be claimed in reduced childcare fees paid directly to the child care service or received as a lump sum payment after the end of the financial year. Child care rebate also covers out-of-pocket childcare expenses, up to a maximum amount. Claims for CCB and Child Care Rebate are made through the Australian Government Family Assistance Office.

¹³ DEEWR, *Non-mainstream Child Care Services Program Guidelines 2009–10*, p. 6.

charged by most MACS are minimal, some charge near commercial childcare rates. There is no cost to families using crèches. Table 1.1 outlines the six types of Indigenous childcare services funded by the Australian Government.

Table 1.1

Indigenous childcare service types

Service Type	Description	Number funded in 2010–11
MACS	Provide a combination of long day care and at least one other form of childcare or activity.	33
Crèches	Provide culturally appropriate childcare programs over flexible hours. They also provide Indigenous families with an introduction to early learning and childcare.	36
Flexible / innovative services (flexibles)	Provide flexible early childhood education and care through various forms of childcare or activity.	37
Mobile childcare services (mobiles)	Visit rural and remote areas and may provide flexible children's sessions, including playgroups, vacation care, on-farm care, parenting support, toy and video lending libraries and parent resource library services.	14
Indigenous playgroups (playgroups)	Provide children not yet attending school with a wide range of culturally appropriate developmental, educational and socialisation activities that are relevant to the local community.	23
Indigenous outside school hours care and enrichment programs (OSHC / VAC)	Provide care for Indigenous school children and teenagers and may include supervised care, organised activities, homework centres and nutrition services.	120

Source: DEEWR.

1.3 Service providers are funded on the basis that they operate in areas where it is not commercially viable to provide a childcare service, or they provide a culturally competent service that meets the needs of the local Indigenous people where they operate. As at July 2010, the Budget Based Funding (BBF) sub-program funded the operation of 268 Indigenous childcare services at a total cost of \$44.2 million. This included \$20.7 million in funding for 33 MACS and 36 crèches.

1.4 MACS and crèches are located within each Australian state and territory, with the majority operating in remote and very remote communities. Table 1.2 provides a breakdown of the location of the 69 MACS and crèches by state and territory and remoteness classification.

Table 1.2

Location of MACS and crèches as at July 2010

Location	Very Remote	Remote Australia	Outer Regional Australia	Inner Regional Australia	Major Cities of Australia	Totals
Australian Capital Territory				1		1
New South Wales				6	3	9
Northern Territory	27	6		1		34
Queensland		2		1		3
South Australia	5		1	1	2	9
Tasmania			1			1
Victoria			2	3	1	6
Western Australia	1	2	1		2	6
Totals	33	10	5	13	8	69

Source: DEEWR.

History of Indigenous childcare services

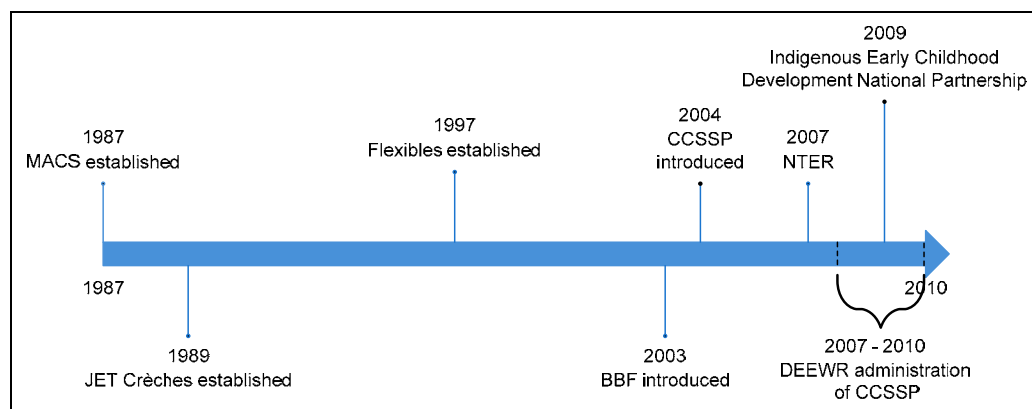
1.6 The Australian Government first funded MACS and crèches in 1987 and 1989 respectively. In the 1990s the number of services was expanded. Subsequently, direct funding was provided to a range of organisations to deliver these types of Indigenous childcare services.¹⁴ In 2003 the Australian Government consolidated the direct funding provided for Indigenous childcare services. The term 'Indigenous non-mainstream childcare services' was then introduced to collectively refer to all Indigenous childcare services previously provided with direct Australian Government funding. In this report 'Indigenous non-mainstream childcare services' are referred to as 'Indigenous childcare services'.

1.7 In 2007 as part of the Northern Territory Emergency Response (NTER), the then Government committed to establishing nine additional crèches to provide access to child care in areas where previously no or few early childhood services existed. Australian Government funding was also provided to upgrade 13 existing crèches in the Northern Territory. Eight new crèches and 11 upgrades had been completed at the time of this report.

1.8 Management of the Child Care Services Support Program (CCSSP), of which MACS and crèches are a part, was transferred from the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) to DEEWR, in December 2007.¹⁵ Figure 1.1 briefly outlines key events in the history of MACS and crèches.

¹⁴ Organisations which are funded to deliver Indigenous childcare services include: Indigenous corporations, shire councils and not-for-profit organisations.

¹⁵ Commonwealth of Australia, *Administrative Arrangements Order, No S251*, 3 December 2007.

Figure 1.1**History of MACS and crèches**

Source: ANAO analysis of DEEWR information.

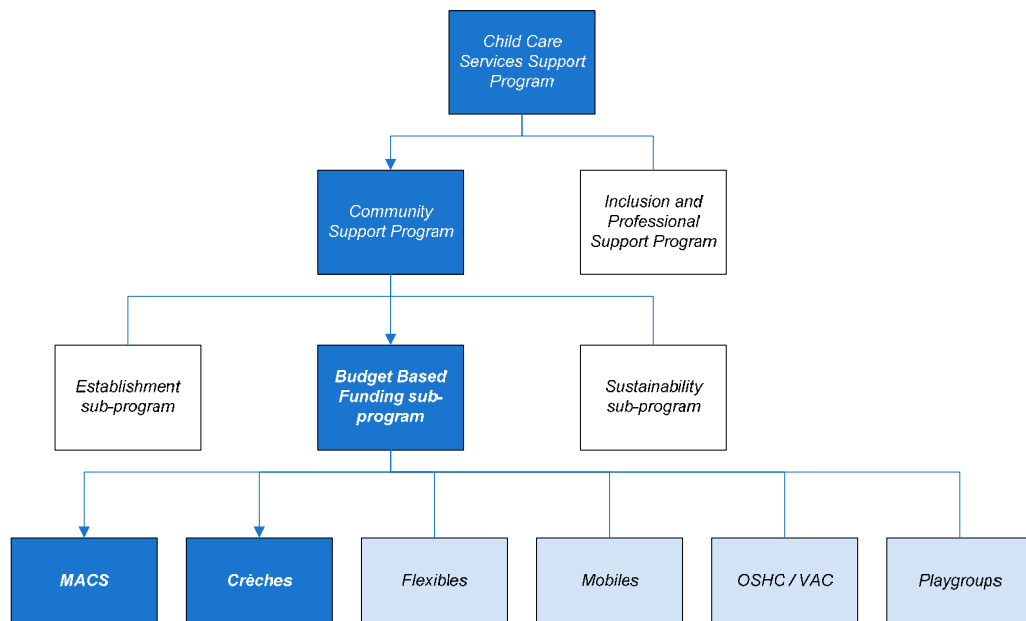
Program and management arrangements—Indigenous childcare services

1.9 The Office of Early Childhood Education and Child Care (OECECC) within DEEWR is responsible for managing early childhood education and childcare programs. The administration of the BBF sub-program within OECECC is shared between the national office and state and territory offices. Broadly, the national office is responsible for program design, allocation of funding and interpretation of policy. The state and territory offices are responsible for the management of funding agreements with BBF service providers, including operating as the primary contact point. Within each state and territory office, a childcare business manager coordinates and leads all work in the jurisdiction regarding childcare programs. Funding agreement managers, who report to the childcare business managers, are assigned responsibility for managing the funding agreements with one or more Indigenous childcare service providers.¹⁶ The program structure under which DEEWR manages the BBF sub-program is represented in Figure 1.2.

¹⁶ Actual position titles for staff members allocated the role of funding agreement manager vary between DEEWR state and territory offices.

Figure 1.2

DEEWR program structure for the Child Care Services Support Program



Source: DEEWR.

Funding model for Indigenous childcare services

1.10 MACS and crèches are generally funded using a historical allocation funding model. The model is budget based rather than utilisation/demand driven. MACS and crèches established prior to 2007 are funded based on a set number of childcare places. However, services are not required to limit available places to this set number. Crèches established under the NTER are funded on a costed service model, including an allocation for 25 places. Funding for all Indigenous childcare services is increased annually in line with the Labour Price Index¹⁷. An efficiency dividend is also applied to the special services component of MACS funding.¹⁸ The net result is an annual increase in operational funding marginally less than that provided to other Indigenous

¹⁷ The Labour Price Index measures change in the price of labour services resulting from market pressures. Further information can be found at the Australian Bureau of Statistics' website <www.abs.gov.au>.

¹⁸ MACS special services funding is used to provide additional programs or services and on average equates to around 30 per cent of the funding received by service providers from the Australian Government.

childcare services. Base funding for MACS was increased in 2007–08 by 20 per cent in recognition that funding had not kept pace with cost increases. Additional grant payments for one-off capital expenditure have also been included in the funding provided to service providers.

1.11 In mid-2009 the Australian and Victorian Governments entered into a three-year agreement whereby the funding and administrative responsibility for the six Victorian based MACS was transferred to the Victorian Government.¹⁹ The Victorian Government has agreed to provide additional services through the MACS with the aim of developing a more integrated service delivery model.²⁰ The funding agreement, entitled the 'GROW MACS Project', is a three-year pilot project, which commenced on 1 October 2009. It is proposed that the project will be independently evaluated.

Internal audit of the Child Care Services Support Program

1.12 DEEWR Internal Audit conducted a review of the CCSSP in 2008, to provide independent assurance on the adequacy of the program's performance management and control framework. The internal audit made nine recommendations aimed at improving the administration of the CCSSP, including in the areas of:

- measuring program performance—the Early Childhood Programs Group (ECPG) develop appropriate outcomes and objectives, and robust performance indicators for each sub-program of the CCSSP;
- risk management—ECPG develop and articulate a documented risk management framework for the CCSSP;
- program guidelines—ECPG develop and promulgate program guidelines and guidance for contract managers;
- funding agreements—ECPG review the need for multiple agreements for childcare service operators and implement a risk based approach in determining the funding agreement term;

¹⁹ DEEWR also provided capital funding of \$1.1 million to support expansion of service delivery.

²⁰ Additional services include: maternal and child health, kindergarten and other family and community services.

- service provider performance indicators—ECPG review the articulation of performance indicators in funding agreements to confirm that the indicators are consistent, measurable and quantifiable;
- risk-based approach to performance reporting—ECPG develop and implement a risk-based performance reporting regime for service providers;
- risk-based financial reporting—ECPG develop a risk-based reporting regime linked to the risks of the funded organisation;
- service provider payments—ECPG review the payment process to ensure payments are linked to receipt of reports and advance payments are acquitted in accordance with departmental requirements; and
- evaluating and confirming funding to service providers—ECPG implement a process to evaluate the continuing need for, and appropriateness of, funding to service providers.²¹

1.13 DEEWR advised that it is continuing to work on implementing the internal audit recommendations. ANAO observed improvements in DEEWR's administration of the BBF sub-program when compared to the findings of the internal audit.

Audit objectives and methodology

1.14 The audit examined the effectiveness of DEEWR's administrative arrangements supporting the delivery of Indigenous childcare services through MACS and crèches, including the approaches DEEWR uses to monitor the achievement of the BBF sub-program objective.

1.15 In conducting the audit, the Australian National Audit Office (ANAO) reviewed three key areas:

- program administration—DEEWR's administrative systems and processes supporting the delivery of Indigenous childcare services through MACS and crèches and the broader BBF sub-program;
- management of service provider funding agreements—DEEWR's systems and processes for managing MACS and crèche service providers' funding agreements; and

²¹ DEEWR, *Internal Audit of CCSSP*, 16 January 2008.

- monitoring and reporting performance—the effectiveness of DEEWR’s processes for monitoring the performance of service providers, and the achievement of the outputs and outcomes of BBF sub-program.

MACS and crèches were selected as two types of Indigenous childcare services on the basis that they were representative of service types that provided formal (i.e. long day care) and informal childcare.

1.16 The audit team interviewed DEEWR staff based in the national office, and state and territory offices, Indigenous childcare service providers and auspice organisations, including Indigenous corporations and shire councils. Eleven MACS and crèches across urban, regional and remote locations were visited. File reviews were undertaken and data from the FaHCSIA Online Funding Management System (FOFMS), the system used by DEEWR to manage the contracts with service providers, was analysed to develop an understanding of the utilisation patterns and assess contract management compliance. In undertaking the audit the ANAO sought not to duplicate the work of the Internal Audit function, and in doing so referred to the findings of the recent internal audit review of the CCSSP, where these were relevant and appropriate.

1.17 This audit was commenced in September 2009 by the then Office of Evaluation and Audit (Indigenous Programs) under the authority of the *Aboriginal and Torres Strait Act 2005*. On 14 December 2009 the functions of the Office of Evaluation and Audit (Indigenous Programs) were transferred from the Department of Finance and Deregulation to the ANAO. The performance audit was subsequently completed in accordance with sub-section 15(1) of the *Auditor-General Act 1997*. It was conducted in accordance with ANAO auditing standards at a cost of approximately \$350 000.

2. Program Administration

This chapter discusses aspects of DEEWR's administration of Indigenous childcare services.

Introduction

2.1 The Budget Based Funding (BBF) sub-program is a component of the Community Support Program (CSP) which, in turn, is part of the Child Care Services Support Program (CCSSP). Responsibility for its administration is shared between national office and the state and territory offices. For each service provider there is a corresponding DEEWR officer assigned the role of funding agreement manager. These positions monitor the operations of the service providers and support overall administration of the sub-program.

2.2 In undertaking the audit the ANAO examined DEEWR's systems, procedures and processes for managing the provision of Indigenous childcare services through MACS and crèches and the extent to which these support achievement of the BBF sub-program objective. Specifically, ANAO examined:

- the program objective to consider if it is measurable and provides direction for the management of the BBF sub-program;
- DEEWR's administrative arrangements for MACS and crèches;
- the funding model used to allocate funding to MACS and crèche service providers and the administrative effectiveness of the model; and
- the implementation of the government's policy in relation to transitioning Indigenous childcare services to mainstream funding.

Program objective and rationale

2.3 In order to provide direction for the management of programs, it is important for the program objectives to be being stated in such a way that they are realistic and measurable. DEEWR's CCSSP and CSP objectives, as outlined in Table 2.1, are linked to its Portfolio Budget Statements–Outcome 1, stated as:

Improved access to quality services that support early childhood learning and care for children through a national quality framework, agreed national standards, investment in infrastructure, and support for parents, carers, services and the workforce.²²

Table 2.1

Program objective of CCSSP, CSP and BBF sub-program

Program	Objective
Child Care Services Support Program	Supports and improves access to quality services that provide early childhood education and care through the provision of assistance for childcare services.
Community Support Program	Provides a range of payments designed to deliver improved access to childcare through support for establishment of new services and maintenance of services especially in areas where the market would otherwise fail to provide childcare services.
Budget Based Funding sub-program	Provides access to childcare in communities where mainstream or conventional childcare services are not available or viable, and where there is a need for culturally competent services, in particular Indigenous focused childcare.

Source: DEEWR.

2.4 The BBF sub-program objective has several elements that should be considered in managing MACS and crèches. These include:

- **access** to childcare in communities where mainstream or conventional childcare services are **not available** or **viable**; and
- the provision of **culturally competent** services, in particular Indigenous focused childcare.

2.5 Most MACS and crèches are funded to operate in outer regional, remote and very remote areas of Australia where it is reasonable to expect that mainstream childcare services are not available or viable. However, 12 per cent of MACS are located in major cities with a further 19 per cent in inner regional areas, areas where alternative services should be available.

2.6 In order to measure the extent to which a program or sub-program is effectively delivering its objectives, it is important that key terms are appropriately defined for the benefit of all stakeholders. In relation to

²² *Portfolio Budget Statements 2010-11, Department of Education, Employment and Workplace Relations*, <<http://www.deewr.gov.au/Department/Budget/Pages/1011PBS.aspx>> [viewed 17 May 2010].

Indigenous childcare services DEEWR would be better positioned to assess the contribution that the current services are making to the BBF sub-program objective if an agreed understanding of access, availability, viability and culturally competent was available. This common understanding would assist DEEWR to develop key performance indicators that support an assessment of the achievements of the BBF sub-program. This, in turn, would support clear and consistent decisions about the administration of the BBF sub-program and related services and provide guidance to DEEWR staff working in this area.

Recommendation No.1

2.7 To assist DEEWR in making informed decisions about the ongoing administration of MACS and crèches and to assess the achievement of the sub-program objective, ANAO recommends that DEEWR:

- (a) provide definitions of the key terms access, availability, viability and culturally competent, used in the BBF sub-program objective; and
- (b) develops key performance indicators that are aligned with the BBF sub-program objective.

DEEWR's response

2.8 *Agreed.*

2.9 As part of an internal BBF Program review DEEWR will examine the development of:

- definitions for the key terms in the BBF Program objectives to be included in key documents including the Program Guidelines and selection documentation for new service providers; and
- key performance indicators aligned with the BBF Program and the systems improvements necessary to support improved performance monitoring and reporting.

2.10 The review will involve consultation and communication with key internal and external stakeholders, and, subject to the views of the incoming government, will be progressively implemented as early as practicable.

DEEWR's administrative arrangements

2.11 An internal audit of the CCSSP, commenced in August 2008, found 'that overall there are weaknesses in the performance and control framework of the program'.²³ As discussed earlier, nine recommendations were made to improve aspects of the program's management. Since the review, DEEWR has made improvements to the management of the program. The changes implemented include:

- developing operational guides for the CSP that provide guidance to DEEWR staff;
- implementing program guidelines that provide operational guidance to service providers;
- revising reporting templates for service providers to complete for each of the reports required as part of their funding agreements;
- establishing formal communication systems and protocols between DEEWR national office, and the state and territory offices;
- establishing four working groups to implement the recommendations of the internal audit of the CCSSP;²⁴
- progressing towards more rigorous systems and processes for the collection and analysis of data provided in reports by service providers; and
- implementing multi-schedule funding agreements, for Indigenous childcare services, whereby a provider (e.g. shire council) signs a single head agreement with separate schedules for each funded service.

2.12 Changes to the management of the BBF sub-program have assisted both DEEWR staff and service providers. For example, the development of operational guidelines has provided a basis for greater consistency in the management of the sub-program. Program guidelines and reporting templates have assisted service providers to better understand their role and responsibilities and DEEWR's administrative and reporting requirements.

²³ DEEWR, *Internal Audit of CCSSP*, 16 January 2008.

²⁴ The Working Groups were assigned responsibility for funding agreements, risk management, program guidelines and operational guides, and performance information.

DEEWR advised that multi-schedule funding agreements²⁵ will be implemented for the 2010–11 funding round, and that these will reduce the number of funding agreements for BBF services from 264 to 145. While DEEWR has improved its overall management of the BBF sub-program in the last two years, ANAO identified several areas where it could make further improvements. These are discussed in the following sections.

Use of single-year funding agreements

2.13 DEEWR uses funding agreements to engage service providers to operate Indigenous childcare services. The funding agreements set out the contractual obligations of both parties, including the type, frequency and timing of reporting. Historically, these have been single-year agreements, with the exception of the Grow MACS pilot.

2.14 Single-year funding agreements offer government agencies greater flexibility in influencing the activities of funded organisations, while limiting their financial commitment to the service provider. This type of agreement is effective in situations where the funded service is for a short period, or where there is a high level of competition in the market to provide the service and value for money can be achieved through regular testing of the market.

2.15 The use of single-year funding agreements includes a significant administrative workload for both service providers and the responsible agency. Since the inception of funding for MACS in 1987, there have been only four instances where funding was discontinued. As the majority of MACS have been operated by the same service provider since their inception in the late 1980s, ANAO considers that there would be merit in the department exploring the benefits of transitioning service providers from single-year to multiple-year funding agreements. This would reduce the administrative burden for both parties and provide greater certainty of funding for service providers, to aid with their longer term planning for childcare service delivery. DEEWR advised that it agrees in principle with multi-year funding agreements, but will give priority to improving its program management arrangements, including funding and reporting, prior to entering into longer term contract arrangements.

²⁵ Multi-schedule funding agreements are where one organisation e.g. a shire council, receives funding to operate more than Indigenous childcare service.

Child care funding models

2.16 The Australian Government funds child care through two funding streams: mainstream and BBF. Mainstream services are approved service providers for the purposes of administering Child Care Benefit (CCB). The CCB is a means-tested payment made to parents or carers to assist with the cost of placing a child in an approved childcare service. It can also be provided as a fee reduction paid directly to the service providers. The cost to the Australian Government of the CCB funding arrangement is not capped, and is a special appropriation. Families receiving CCB may also be eligible to receive the Child Care Rebate.²⁶ As demand for childcare places increases, the childcare sector grows to meet that demand. CCB funding increased from \$989.3 million²⁷ in 2000–01 to \$2021.2 million²⁸ in 2009–10.

2.17 BBF is a sub-program within the CCSSP and operates on an annual budget allocation. The cost of the BBF sub-program is determined annually by DEEWR, taking into account the amount allocated by the Australian Government to the CCSSP. The cost of Indigenous childcare services has incrementally increased each year.

2.18 Funding for MACS is determined on a historical allocation basis. Application of the funding model is complex, with an indexation factor and efficiency dividend applied to component parts. The net effect is an increase slightly below that provided to other Indigenous childcare services. Funding is allocated to individual crèches largely based on service budgets.

2.19 The funding model is budget-based and does not take into account changes in demand for Indigenous childcare services with the result that the level of funding to each childcare service provider has been relatively stable over time. However, in recognition of the rising cost of service provision, ad-hoc increases in funding for Indigenous childcare services have also occurred. In 2007–08 DEEWR provided additional funds to MACS and crèches for one-off capital upgrade projects. Additional amounts of up to \$20 000 were offered to service providers. In that year the base funding to all

²⁶ Originally named the Child Care Tax Rebate, the Child Care Rebate is a non-income tested payment made direct to families to assist out-of-pocket childcare costs.

²⁷ FaHCSIA, *Portfolio Budget Statements 2000–01, Family and Community Services Portfolio*, p. 54.

²⁸ DEEWR, *Portfolio Budget Statements Section 2 Outcomes and Performance Information – Outcome 1*, p. 54.

non-mainstream services was also increased by 20 per cent, in addition to indexation. Funding was also provided to service providers to assist in transitioning childcare staff from Community Development Employment Project (CDEP) funded places into permanent jobs.²⁹ In 2009–10, as part of the Northern Territory Emergency Response (NTER), an additional \$15.2 million was allocated to upgrade 13 crèches and establish nine new crèches.³⁰

Limitations of the historically based funding model

2.20 Since the Australian Government started to provide funding for the operation of MACS, crèches and other Indigenous childcare services in the late 1980s, there have been substantial demographic changes in the Indigenous population. ABS census data indicates that between 1986 and 2006 the number of Indigenous children aged four and under increased from 31 852 to 55 566.³¹ In remote and very remote areas the number of Indigenous children aged four and under increased by 24 per cent between 1986 and 2006 to around 16 500 children. While Indigenous parents and carers in urban and regional locations have access to mainstream childcare services, it would be reasonable to expect that the population increase has also impacted upon the demand for childcare services in remote and very remote areas, which rely to a greater extent on Indigenous childcare services.³²

2.21 Several MACS are operating in urban areas where access to mainstream childcare services would be now be considered highly accessible, although this may not have been the case when the MACS were first established. The historical approach to providing funding means that the department may potentially continue to fund services in a way that is not consistent with the objective of the BBF sub-program as outlined in Table 2.1.

²⁹ In December 2008 the Australian Government announced reforms to the CDEP program. The changes were aimed at improving opportunities for Indigenous Australians to obtain and keep a job. At the time of the audit, 352 CDEP positions in Indigenous childcare services had been converted into permanent jobs.

³⁰ The additional budget funding of \$15.2 million provided under the NTER, was comprised of \$6.38 million for capital expenses and \$8.82 million for operational expenses.

³¹ Australian Bureau of Statistics, Census, 1986 and 2006.

³² In remote and very remote areas, there is a demand for childcare services in areas where it may not be commercially viable to operate a mainstream childcare service.

Recommendation No.2

2.22 In order for DEEWR to be more responsive to changes in demand for Indigenous childcare services and the performance of service providers, ANAO recommends that the department reviews its funding model for MACS and crèches to provide more flexibility in its application.

DEEWR's response

2.23 *Agreed.*

2.24 DEEWR recognises the need for greater responsiveness and flexibility in the funding model than the current historically based funding model allows.

2.25 Subject to the views of the incoming government, it is intended that implementation of changes to the long standing BBF Program funding arrangements are based on thorough analysis, extensive consultations to gain an understanding of the possible impacts of any proposed changes and supported by timely, effective communication with stakeholders.

2.26 A comprehensive review of the funding model is proposed to be undertaken from 2011–12. This will allow the Department to give priority to the roll-out of the May 2010 Budget decision to improve the infrastructure of BBF services and afford service providers a reasonable period to transition to new funding arrangements.

2.27 The proposed funding model review aims to:

- examine the scope to develop a flexible funding formula;
- explore the benefits of transitioning BBF services from single year to multi-year funding agreements; and
- explore the feasibility of transitioning selected Multifunctional Aboriginal Children's Services to mainstream funding, particularly those services that are well positioned to do so.

Transitioning service providers to mainstream funding

2.28 In 2007, the Australian Government committed to transitioning 25 existing Indigenous childcare service providers to mainstream funding

arrangements over four years.³³ In June 2008, to better align Indigenous childcare service delivery with the government's broader Indigenous early childhood agenda, the funding was absorbed into the Closing the Gap: National Partnership Agreement on Indigenous Early Childhood Development.

2.29 Several service providers indicated during discussions with the ANAO that they were capable of meeting the childcare standards³⁴ for approved services and have the capacity to transition to mainstream funding. ANAO observed that five service providers were charging parents commercial or near-commercial rates for their childcare services. However, these parents were not able to receive the CCB or Child Care Rebate to reduce their childcare costs.

2.30 Transitioning MACS that are capable of meeting the childcare standards for approved services to mainstream funding would potentially reduce the cost of childcare for parents and carers, and may allow for a reallocation of funding to other service providers. For example, if the five MACS currently charging commercial or near-commercial rates for long day care were transitioned to mainstream funding it would result in around \$2 million, or about 14 per cent, of allocated MACS funding becoming available for reallocation to either existing or new services. While there may be benefits for some parents/carers and services in transitioning MACS to mainstream funding, this approach would need to be balanced by consideration of the associated costs and potential changes in service levels.

2.31 DEEWR advised that transitioning Indigenous childcares services to mainstream funding, particularly those operating in regional and remote locations, is difficult and in the shorter term may have a higher cost to government. In addition, increasing the use of mainstream services will have the effect of shifting costs from one program to another, on an ongoing basis. There are also considerations in relation to the actual services that are funded through MACS. The current funding often provides for a broader range of services than those funded under mainstream child care.

³³ Australian Government, *A Better Future for Indigenous Australians - improved access to child care and early childhood services*, Budget Measures 2007-08 Budget Paper No 2, p. 170.

³⁴ The Australian Government has developed a National Quality Framework and National Quality Standards for early childhood education and care. These are replacing the previous standards and regulations regimes. However, Indigenous childcare services are exempt from complying with the National Quality Framework and National Quality Standards but must comply with state and territory government regulations and licensing requirements where applicable.

3. Managing Service Provider Funding Agreements

This chapter discusses the effectiveness of DEEWR's systems and processes for managing the funding agreements with MACS and crèche service providers funded under the BBF sub-program.

Introduction

3.1 The management of service provider funding agreements is the responsibility of the department's state and territory offices, with the primary departmental point of contact being the designated funding agreement manager.³⁵ The delivery of childcare services by MACS and crèches is influenced by the effectiveness with which funding agreement managers discharge their duties.

3.2 This chapter discusses aspects of DEEWR's administrative systems and processes and their impact on service providers and funding agreement managers. It also discusses some of the challenges associated with delivering government programs, in particular Indigenous childcare services in remote and very remote areas.

Indigenous childcare services' funding agreements

3.3 DEEWR enters into funding agreements with organisations to provide Indigenous childcare services in one or more locations. The funding agreements outline the contractual obligations of both parties.

3.4 The current form of the funding agreements enables DEEWR to influence how service providers expend funds provided by the Australian Government. The overall annual funding allocation to each childcare service is determined by the national office with the service provider subsequently required to submit a service budget report for approval. The service budget details the annual estimated income and expenditure for the service. Once approved, service providers are expected to comply with the agreed budget.

³⁵ Position titles of DEEWR staff assigned the role of funding agreement manager vary between different state and territory offices.

3.5 A proportion of the funding is used by service providers to cover their administrative costs. DEEWR does not mandate what percentage can be allocated for this purpose. A review of a sample of service budget reports found that service providers allocated between 10 and 20 per cent of funding for administrative costs.

3.6 Service providers are required to report expenditure variations to DEEWR in quarterly and half-yearly financial reports. DEEWR reviews and approves deviations from the service budget and adjusts future payments to the service provider.³⁶ Seasonal and short-term changes to the demand for, or operation, of individual services can create variations.

3.7 The existing administrative processes for approving variations to service budgets is an administrative overhead and it limits flexibility in application of the funding by service providers. Feedback from service providers operating multiple services also indicated that the requirement to manage the funding for each service location separately results in an increased administrative workload. DEEWR's national office is involved in the approval of minor adjustments to budgets and expenditure. There may be benefit in DEEWR reviewing this approach having regard to the broader controls framework.

3.8 Affording service providers greater flexibility in how they use their funding would allow them to cater for local changes in demand and circumstance. An extension of this principle could include providing the ability for service providers that have multi-schedule funding agreements to move a specified amount of funding between service locations. Affording service providers greater flexibility in how they use funding would need to be balanced by appropriate controls to make sure that quality childcare services are delivered in all locations.

Role of DEEWR funding agreement managers

3.9 Within each state and territory office, the role of funding agreement manager/s for the BBF sub-program is assigned to individual staff positions. Depending upon the structure of the state and territory offices, the allocation

³⁶ For example, unspent funds being shown in a quarterly or half yearly financial report (or the annual acquittal report) may result in a reduced future payment being made by DEEWR rather than requiring a reimbursement from the service provider.

of service providers can be by geographical location or by program area (e.g. childcare programs).

3.10 The role of DEEWR funding agreement managers varies depending upon the specific needs of the service providers for which the manager is responsible. In urban and regional areas, the role of funding agreement manager is closely aligned with that of a contract manager. As a result, funding agreement managers are predominantly concerned with whether service providers have complied with their funding agreement.

3.11 For service providers operating in remote and very remote communities, there is a need for funding agreement managers to have an understanding of local service delivery issues and to provide additional support to assist in the provision of childcare services in the communities. In such cases, the role of the funding agreement manager includes a range of capacity building tasks designed to support the service provider. For example, the funding agreement managers may be required to assist the service providers to prepare the service work plans, complete performance reports, provide operational support to the childcare coordinators managing the services or assist in developing childcare capacity in the local workforce. This expanded role differs from a normal contract management role.

3.12 DEEWR has not specifically addressed its role, or the role of funding agreement managers, in relation to building the capacity of service providers. State and territory offices, and individual funding agreement managers, are required to determine the extent to which they are involved in capacity building of service providers, and the nature and extent of that involvement. This results in funding agreement managers delivering different levels of support to service providers.

3.13 To determine the appropriate level of support to service providers, there would be benefit in DEEWR establishing the current extent of funding agreement managers' involvement in supporting activities such as capacity building of service providers and if appropriate, providing relevant training and support for them.

Recommendation No.3

3.14 To determine the appropriate level of support to service providers, ANAO recommends that DEEWR assesses the role of funding agreement managers (contract managers) and clarifies the extent of their expected involvement in supporting activities, such as building the capacity of Indigenous childcare service providers.

DEEWR's response

3.15 *Agreed.*

3.16 DEEWR acknowledges that some BBF services, particularly in remote and very remote communities, require intensive support from contract and program managers to meet BBF Program requirements. The roles and responsibilities of DEEWR funding agreement managers will be considered as part of the internal review noted under Recommendation No. 1.

3.17 The 2010 Budget Measure to improve the BBF services includes a governance component to contribute to building the governance and administrative capacity of BBF services over the next 4 years.

3.18 Over the medium term this is expected to ameliorate the extent of support required by service providers from DEEWR funding agreement managers.

Developing the skills of funding agreement managers

3.19 ANAO observed that DEEWR's funding agreement managers have come from different backgrounds and have varying levels of knowledge about the childcare sector and Indigenous communities. At the time of the audit, DEEWR was in the process of developing a familiarisation training program for state and territory office based staff. It is expected that the content of the training program will reflect the results of a staff survey of training needs, conducted in December 2009. At the time of the audit, the training provided had covered legal requirements in contract management, upgrades to the contract management systems and financial awareness.

3.20 In response to the recommendations of the internal audit review of the CCSSP, DEEWR has also developed and implemented operational guidelines for the CSP. These guidelines are designed to assist funding agreement managers to effectively perform their duties.

Administrative issues associated with the contract management system

3.21 DEEWR uses the FaHCSIA Online Funding Management System (FOFMS) to manage funding agreements for the BBF sub-program. DEEWR has used FOFMS to manage BBF funding agreements since December 2007, when responsibility for early childhood, childcare policy and programs was transferred to it from FaHCSIA.

3.22 FOFMS captures key information related to service providers including: the total level of funding provided under an agreement, periodic payment amounts, due dates of reports, and milestone dates for the release of funding. Funding agreement managers update FOFMS throughout the period of the funding agreement to record the receipt of reports, whether reports are satisfactory, and to trigger the release of payments when milestones are achieved by service providers.

3.23 Like most financial management systems, FOFMS requires a substantial amount of manual data entry from DEEWR staff to both register and subsequently manage funding agreements. FOFMS processes around \$2 billion annually in CCB and CCSSP payments. Payments to MACS and crèche service providers account for only two per cent of total payments made through the system.

3.24 In managing MACS and crèche funding agreements, DEEWR requires a range of information, some of which is at the individual service provider level. Analysis of this information assists with identifying anomalies and trends and informs management decision-making. In order to better meet its management information needs, DEEWR has advised that it is developing a data-warehouse to enable improved sharing of BBF sub-program data recorded in FOFMS.

3.25 In undertaking an analysis of FOFMS data for the audit, both ANAO and DEEWR identified data errors that raised questions about overall data integrity. DEEWR advised that it has identified this as a risk and that regular staff training is an important risk mitigation strategy.

3.26 In using FOFMS DEEWR is reliant on FaHCSIA to maintain and update system functionality. DEEWR has experienced some issues in respect of administering payments to MACS and crèche service providers. However, DEEWR advised that it is working with FaHCSIA to improve the business partnership arrangements, including systems support.

Challenges of delivering childcare services in remote and very remote Indigenous communities

3.27 DEEWR faces a number of challenges in supporting the delivery of Indigenous childcare services in remote and very remote areas. While these factors are outside of DEEWR's control, a discussion of the issues provides context to the broader environment in which DEEWR is managing Indigenous childcare services. External factors include:

- capacity, capability and interest of local Indigenous people to work in child care;
- access to housing in remote communities for childcare team leaders;
- training of Indigenous people in remote communities;
- access to suitable childcare facilities; and
- impact of local events and customs on the period in which childcare services operate.

The capacity, capability and interest of local Indigenous people to work in child care

3.28 Service providers operating childcare services are often limited by the availability of local people capable or interested in working in child care. The combination of low levels of formal education in the community and a high demand for those people with secondary level education to fill jobs means that service providers are competing with other organisations for a small field of capable people. Skills shortages, the number of people with childcare qualifications, or even the ability of a service provider to recruit local people with a level of education that would allow for the necessary professional development, directly impacts upon service delivery in remote and very remote communities.

Housing in remote communities

3.29 Access to housing in remote and very remote communities is a significant limiting factor for the delivery of government programs. Government agencies or service providers generally either have to provide housing for staff or recruit from the limited labour pool within the community. This includes both Indigenous people and spouses of people employed by other organisations. In such cases, potential staff members may have an interest in child care without necessarily having formal qualifications.

3.30 To illustrate this point, the MacDonnell Shire Council in the Northern Territory is funded to operate 15 Indigenous childcare services, including four crèches. As at February 2010, eight of the nine on-site childcare team leaders responsible for the day-to-day operations of the centres were from outside of the community in which the service operated. Of those nine services, only one community had a dedicated house for the childcare team leader. The remaining team leaders occupied share accommodation. The limited availability of accommodation contributes to the turnover of staff in remote and very remote communities.

Training of Indigenous people in remote communities

3.31 For cultural reasons it may be difficult for Indigenous people to leave their community to undertake professional development and training. Delivering training in remote communities for Indigenous persons has proven to be difficult, with limited access to qualified and experienced trainers prepared to deliver on-site training.

3.32 Within the CCSSP, DEEWR funds the operation of Indigenous Professional Support Units (IPSUs). The role of the IPSUs is to provide professional development and support to eligible Indigenous childcare services. That development and support can be in the form of telephone advice and support, access to resource materials, flexible training options, online resources and a referral service to other government services.

3.33 Service providers have also identified the training of remotely located staff as a key issue and in some instances are providing additional training and support. The MacDonnell Shire Council recently established a position dedicated to providing support and training to their Indigenous childcare workers. The training provided by MacDonnell Shire Council is targeted towards the specific needs of each childcare worker and centre, but does not form part of a formal tertiary level course or contribute to any future requirements for childcare workers to be formally qualified.

3.34 ANAO was advised by DEEWR that within the Northern Territory, there is a lack of Registered Training Organisations with the capacity and capability to deliver certificate-level training in remote communities. As a result, interested stakeholders, including the Northern Territory Government and Charles Darwin University, have established the Australian Childcare Training Group to investigate how to improve the provision of accredited training in remote and very remote areas in central Australia.

Access to appropriate childcare facilities

3.35 In some very remote communities, the quality of the childcare facilities is well below the standard required from mainstream childcare service providers. The upgrading of those facilities is a costly exercise. However, without appropriate childcare facilities it is even more difficult for service providers to attract qualified staff, provide a safe and secure operating environment, and to deliver a quality childcare service.

Local events and customs

3.36 Childcare services in remote and very remote communities can be closed for periods in response to the traditional customs of Indigenous people. Weather conditions in central Australia and northern Australia may also result in the temporary closure of childcare services, or at least an adjustment to the hours of operation. In such cases, it is outside the control of the service provider to maintain services as required in the funding agreement with DEEWR.

4. Monitoring and Reporting Performance

This chapter discusses the effectiveness of the systems and processes used by DEEWR to both monitor the performance of service providers and assess the extent to which the BBF sub-program outcome is achieved.

Introduction

4.1 A well developed performance framework should provide DEEWR with adequate management information to manage the BBF sub-program and respond to service provider issues in a timely manner. Achievement of the BBF sub-program objective and its contribution towards the Child Care Services Support Program (CCSSP) is, in part, dependent upon the delivery of Indigenous childcare services and the performance of service providers. The effectiveness with which DEEWR monitors service provider outputs and outcomes is an important element of the management of the sub-program.

4.2 As part of the audit the ANAO examined DEEWR's performance management framework relating to the CCSSP, and the processes for monitoring the performance of MACS and crèche service providers. Specifically, ANAO reviewed:

- DEEWR's ability to measure the performance of the BBF sub-program;
- the adequacy of reports provided by BBF service providers; and
- DEEWR's ability to identify and respond to service delivery issues in a timely manner, including DEEWR's ability to effectively identify and manage risks.

Measuring the performance of the BBF sub-program

4.3 In December 2009 the Office of Early Childhood Education and Child Care (OECECC) Performance Information Working Group endorsed the implementation of a revised performance management framework for the CCSSP. The revised framework linked the CCSSP and Community Support

Program (CSP) objectives to the relevant Portfolio Budget Statement outcome.³⁷ Included in the framework was a list of key performance indicators to be used to assess the CSP. The key performance indicators included:

- number of approved services receiving CSP funding;
- number of new services receiving CSP funding;
- number increase of children using CSP funded childcare;
- number of staff qualifications of CSP funded services; and
- number of CSP services using various DEEWR ancillary support programs (i.e. accessing an Inclusion Support Agency, receiving Inclusion Support Subsidy, or using a Professional Support Coordinator).³⁸

4.4 The recent development of the performance management framework for the CCSSP should assist DEEWR in managing the BBF sub-program. Further developing the framework by including program effectiveness/outcomes indicators, and taking into account geographic differences, would assist DEEWR in directing the available funding to areas of greatest need.

4.5 The measures used in monitoring the objectives of the CSP and BBF sub-program are primarily quantitative. That is, the measures relate to the provision of childcare services without particular specification of the quality of the services provided. In assessing the performance of MACS and crèches and their contribution to the CCSSP, DEEWR assesses whether a service is being provided, but not the extent to which that service is delivering quality childcare outcomes.

4.6 In remote and very remote communities the role and value of MACS and crèches is substantially different to those in urban and regional areas. In urban and regional areas, a qualitative assessment of service providers could be linked to services delivering *'quality childcare that enhances the cultural,*

³⁷ As stated in the revised performance management framework, the CSP supports PBS Outcome 1: Improved access to quality services that support early childhood learning and care for children through a national quality framework, agreed national standards, investment in infrastructure, and support for parents, carers, services and the workforce.

³⁸ The Inclusion and Professional Support Program is part of the CCSSP and is outside the scope of this audit.

physical, social, emotional, language and learning development of all children'.³⁹ In remote and very remote communities, that qualitative assessment may need to be expanded to explicitly consider education and health outcomes. Service providers in these areas have a broader role and were often focused on the combined outcomes of education, improved primary health and family support. ANAO observed that the role of service providers varied depending upon the specific needs of the community.

Recommendation No.4

4.7 To enable assessment of the quality of childcare services provided by MACS and crèches, ANAO recommends that DEEWR further develops its performance management framework to include effectiveness/outcome performance indicators.

DEEWR's response

4.8 *Agreed.*

4.9 Subject to the views of the incoming government, DEEWR will explore, as part of its internal BBF Program review being conducted during 2010–11, further development of its performance management framework to include effectiveness/outcome performance indicators. In order to report on these indicators, DEEWR will also identify opportunities to improve systems to support performance monitoring and reporting.

Service provider reports

4.10 Service providers are required to provide a series of reports to DEEWR in relation to their operation. At the time of audit fieldwork, service providers were required to submit eight to ten reports annually depending on the level of funding, including a certified or audited financial acquittal due by 31 October of each year. Table 4.1 on the following page summarises the reporting requirements of Indigenous childcare services receiving in excess of \$80 000 in Australian Government funding.

³⁹ OECECC, *Non-mainstream Child Care Services Program Guidelines 2009-10*, version 1.0, September 2009, p. 6.

Table 4.1**Reports required from service providers in receipt of \$80 000 or more in operational funding**

Name of report	Information to be contained in the report	Due date
Service Budget	Detailed anticipated income generated from fees, funding provided by DEEWR and anticipated expenditure for the year.	31 July
Service Work Plan	Description of key deliverables that are planned for the financial year.	31 July
First Quarterly Financial Report	Detailed actual income generated by fees, funding provided by DEEWR and actual expenditure against service budget for the July to September quarter.	15 October
First Utilisation Report	Statistics about the use of the service during July to December period.	15 January
Second Quarterly Financial Report	Detailed actual income generated by fees, funding provided by DEEWR and actual expenditure against service budget for the October to December quarter.	15 January
First Service Progress Report	Evaluation of progress in achieving your key deliverables against the key performance indicators outlined in your service work plan for the July to December period.	15 January
Third Quarterly Financial Report	Detailed actual income generated from fees, funding provided by DEEWR and actual expenditure against service budget for the January to March quarter.	15 April
Second Utilisation Report	Statistics about the use of the service during the January to June period.	15 July
Second Service Progress Report	Evaluation of progress in achieving key deliverables against the key performance indicators outlined in service work plan for the January to June period.	15 July
Audited Financial Acquittal Report (undertaken by an independent auditor) in accordance with the Agreement .	Detailed income generated from fees, funding provided by DEEWR and expenditure in respect of funding provided or received under the agreement and in accordance with sub-paragraph 7.4(a)(ii) .	31 October

Source: DEEWR 2009–10 Child Care LFFA – Budget Based Funding Agreement.

4.11 Service providers submit reports to DEEWR state/territory offices or the national office as required.⁴⁰ These reports are retained on hard copy files with some data extracted and entered into FOFMS. Funding agreement managers monitor the receipt of reports, analyse reports and provide feedback to service providers.⁴¹ Funding agreement managers advised that they spend a considerable amount of time following up late reports.⁴²

4.12 DEEWR authorises payments to service providers on the achievement of reporting milestones. ANAO reviewed the submission dates of reports, for MACS and crèches, as recorded in FOFMS for 2008–09. Table 4.2 outlines the results of this review.

Table 4.2

Service provider reporting for 2008–09 funding agreements

Details	NSW	NT	QLD	SA	TAS	Vic	WA	Totals
Number of reports required to be lodged	120	365	36	103	12	72	72	780
Number of reports lodged on time	54	43	9	30	4	9	20	169
Number of reports lodged late	60	293	21	68	8	61	49	560
Number of reports not lodged	6	29	6	5	0	2	3	51

Source: DEEWR, FaHCSIA Online Funding Management System.

4.13 In 2008–09, 72 per cent of reports required from service providers funded to operate MACS and crèches were submitted late. Of those late reports, 56 per cent were received over one month after the due date. As a result of the service providers submitting reports late, 67 per cent of payments made by DEEWR to service providers were approved after the date specified in the funding agreement.

⁴⁰ Some reports, such as utilisation reports, are submitted by service providers directly to the national office.

⁴¹ DEEWR, *Community Support Program Operational Guidelines 2009–10*, p. 39.

⁴² As a sub-program, DEEWR does not allocate resources or collect data that would allow for an empirical analysis of workload in relation to the administration of BBF Indigenous childcare services. The analysis of workload was limited to anecdotal evidence provided by funding agreement managers.

Quantum of data collected from service providers

4.14 DEEWR collects a substantial amount of information from service providers each year. As detailed in Table 4.1, 10 reports were previously required to be submitted by service providers in relation to each funding agreement. Feedback from service providers in relation to DEEWR's reporting requirements varied. Service providers with good administrative capabilities were generally accepting of the compliance requirements. Service providers operating in remote and very remote areas were more likely to express concerns with the reporting requirements and their associated compliance costs. Several service providers also felt that there was a substantial overlap in the information requested in different reports.

4.15 The large amount of data required to be collected by service providers and reported to DEEWR is likely to be contributing to the frequency of late reports. DEEWR advised that from 2010–11, service providers will only be required to submit five reports, and where multi-schedule funding agreements are in place, only one financial acquittal report will now be required. DEEWR expects that these initiatives will improve service provider compliance and enable funding agreement managers to analyse the reported information and to respond to emerging issues.

Validity of data provided by service providers

4.16 To maintain their existing level of funding, service providers have an incentive to provide DEEWR with performance and utilisation data that reflects expected service outputs. Periodic testing of the validity of the data supplied by service providers would provide a level of assurance that the information received is accurate. DEEWR advised that when its staff visit MACS and crèches they often compare attendance data for that day with data provided by service providers. A more systematic analysis of service utilisation/attendance could be achieved if DEEWR worked with the government business managers in the Northern Territory and other Australian Government officials to periodically collect Indigenous childcare utilisation/attendance data. This data could then be routinely compared with the information supplied by service providers.

Use of data collected from service providers

4.17 DEEWR requires that service providers supply specific data to assist in the administration of the BBF sub-program. However, a significant proportion of data collected from service providers is retained within DEEWR state and territory offices on hard copy files. The information is not collated centrally or

analysed to provide management information across the sub-program. At the time of the audit, DEEWR was in the process of updating and expanding its systems for collating and analysing data collected from service providers.

A risk based approach to monitoring service providers

4.18 Operating childcare services in remote and very remote Indigenous communities presents service providers with a range of challenges, from compliance issues through to retaining skilled staff. Having in place an administratively efficient monitoring framework, that is proportional to the risk and scale of the funding and that provides timely information, is important to the sound management of the funding agreements.

4.19 At the time of the audit, DEEWR was in the process of developing a risk-based approach to its monitoring of service providers. The approach will include a risk assessment of each service provider and funded service with the results being used as a guide to the level of monitoring and ongoing support undertaken by DEEWR. The use of a risk-based approach to assist in the efficient allocation of staff resources to monitor the delivery of Indigenous childcare services is a useful initiative.

DEEWR's monitoring of service provider performance

4.20 In one instance noted by the ANAO, a service provider continued to be funded for an extended period during which it did not operate a childcare service. The decision to continue funding for the service provider was made by the funding agreement manager, rather than the delegated officer. The reasons for continuing funding were not documented. However, when asked to clarify this issue, DEEWR advised that the rationale to continue funding was:

- the need to cover ongoing administrative costs to maintain the childcare facility in readiness to be reopened;
- the need to support the recruitment of a new childcare coordinator; and
- that the service provider continued to meet their reporting obligations by submitting the required milestone reporting documents.

DEEWR subsequently advised that the service did not operate between July 2008 and August 2008 and again between January 2009 and February 2010 due to renovations.

4.21 DEEWR funding a service provider not operating a service for a period of 19 months, without the issues having been escalated to a delegated officer,

highlights a control weakness in program administration and governance. A review of the current DEEWR Risk Assessment for the Indigenous Pathways and Early Learning Group detailed the risk of 'Misappropriation of funds by organisations contracted to deliver Australian Government initiatives' as unlikely.⁴³ The controls DEEWR has in place for this risk include:

- effective recruitment and contract management;
- staff are aware of procurement processes and their responsibilities under the *Financial Management and Accountability Act 1997*; and
- staff are aware of the Australian Public Service (APS) Code of Conduct and APS values.

4.22 Recent efforts by DEEWR to document administrative procedures should improve the direction provided to DEEWR staff involved in managing Indigenous childcare service providers, and provide better guidance to funding agreement managers on the respective roles of state and territory offices and the national office. Improvements to the central collection and analysis of Indigenous childcare services information may also help the national office detect instances where individual service providers digress from expected service levels. At the time of the audit, DEEWR was in the process of developing: a risk-based approach to monitoring service providers; a process to periodically review funding agreement managers' decisions; and more clearly defining situations where issues should be escalated.



Ian McPhee
Auditor-General

Canberra ACT
23 September 2010

⁴³ DEEWR, *DEEWR Risk Assessment Indigenous Pathways and Early Learning Group—Strategic Risk Assessment 09–10*, p. 11.

Appendices

Appendix 1: Formal Comments on the Proposed Report

Thank you for the opportunity to comment on the Australian National Audit Office's (ANAO) Performance Audit on Multifunctional Aboriginal Children's Services (MACS) and Crèches under Section 19 arrangements.

The department welcomes the opportunity to participate in the audit and the overall conclusion of the report that the development of a management framework for the BBF Program has resulted in benefits for service providers and the department from more consistent management and greater awareness of respective roles and responsibilities, noting areas for further improvement.

Please find attached the department's response on the proposed audit report which is subject to the views of the incoming government and comprises formal comments on the audit's recommendations (Attachment A), a summary of the department's comments for inclusion in the report summary and brochure (Attachment B).

Attachment A

DEEWR Response to Draft Audit Report on Multifunctional Aboriginal Children's Services and Crèches

The Department of Education, Employment and Workplace Relations (DEEWR) appreciates the opportunity to participate in the performance audit of MACS and Crèches.

DEEWR welcomes the ANAO's finding that since taking responsibility for early childhood education and care in December 2007, it has improved administration of the BBF Program. In particular, the implementation of a management framework has supported more consistent internal administration and greater awareness of respective roles and responsibilities for the BBF Program that have benefited service providers and DEEWR.

DEEWR accepts all of the ANAO's recommendations, and recognises their relevance to its current focus on continuous improvement in the management of the BBF Program.

DEEWR's response to each of the audit's recommendations is set out below. Noting that this response is being provided prior to the formation of a Government following the August 21 federal election, the department notes that its commitments to future action are subject to the views of a future government.

Recommendation No.1

To assist DEEWR in making informed decisions about the ongoing administration of MACS and crèches and to assess the achievement of the sub-program objective, ANAO recommends that DEEWR:

- (a) provide definitions of the key terms access, availability, viability and culturally competent used in the BBF sub-program objective; and
- (b) develops key performance indicators that are aligned with the BBF sub-program objective.

DEEWR agrees with this recommendation.

As part of an internal BBF Program review DEEWR will examine the development of:

- definitions for the key terms in the BBF Program objective to be included in key documents including the Program Guidelines and selection documentation for new service providers; and
- key performance indicators aligned with the BBF Program and the systems improvements necessary to support improved performance monitoring and reporting.

The review will involve consultation and communication with key internal and external stakeholders, and, subject to the views of the incoming government, will be progressively implemented as early as practicable.

Recommendation No.2

In order for DEEWR to be more responsive to changes in demand for Indigenous childcare services and the performance of service providers, ANAO recommends that the department reviews its funding model for MACS and crèches to provide more flexibility in its application.

DEEWR agrees with this recommendation.

DEEWR recognises the need for greater responsiveness and flexibility in the funding model than the current historically based funding model allows.

Subject to the views of the incoming government, it is intended that implementation of changes to the long standing BBF Program funding arrangements are based on thorough analysis, extensive consultations to gain an understanding of the possible impacts of any proposed changes and supported by timely, effective communication with stakeholders.

A comprehensive review of the funding model is proposed to be undertaken from 2011–12. This will allow the department to give priority to the roll-out of the May 2010 Budget decision to improve the infrastructure of BBF services and afford service providers a reasonable period to transition to new funding arrangements.

The proposed funding model review aims to:

- examine the scope to develop a flexible funding formula;
- explore the benefits of transitioning BBF services from single year to multi-year funding agreements; and
- explore the feasibility of transitioning selected Multifunctional Aboriginal Children's Services to mainstream funding, particularly those services that are well positioned to do so.

Recommendation No.3

To determine the appropriate level of support to service providers, ANAO recommends that DEEWR assesses the role of funding agreement managers (contract managers) and clarifies the extent of their expected involvement in supporting activities, such as building the capacity of Indigenous childcare service providers.

DEEWR agrees with this recommendation.

DEEWR acknowledges that some BBF services, particularly in remote and very remote communities, require intensive support from contract and program managers to meet BBF Program requirements. The roles and responsibilities of DEEWR funding agreement managers will be considered as part of the internal review noted under Recommendation No.1.

The 2010 Budget Measure to improve the BBF services includes a governance component to contribute to building the governance and administrative capacity of BBF services over the next 4 years.

Over the medium term this is expected to ameliorate the extent of support required by service providers from DEEWR funding agreement managers.

Recommendation No.4

To enable assessment of quality of childcare services provided by MACS and crèches, ANAO recommends that DEEWR further develops its performance

management framework to include effectiveness/outcome performance indicators.

DEEWR agrees with this recommendation.

Subject to the views of the incoming government, DEEWR will explore, as part of its internal BBF Program review being conducted during 2010–11, further development of its performance management framework to include effectiveness/outcome performance indicators. In order to report on these indicators, DEEWR will also identify opportunities to improve systems to support performance monitoring and reporting.

Attachment B

Summary of DEEWR's comments for inclusion in Audit Report summary and brochure

The Department of Education, Employment and Workplace Relations (DEEWR) appreciates the opportunity to participate in the ANAO's performance audit of the Multifunctional Aboriginal Children's Services (MACS) and Crèches.

The ANAO's overall conclusion that since taking responsibility for the administration of MACS and Crèches the Department has introduced more consistent management and encouraged a greater awareness of respective roles and responsibilities by service providers, noting areas for further improvement is welcomed by DEEWR.

DEEWR notes that the ANAO's findings and recommendations primarily relate to improving program administration, funding agreement management and performance management and recognises the relevance of the recommendations to its current focus on continuous improvement in the administration of the BBF Program. Within current resourcing, and subject to the views of the incoming government, DEEWR plans to undertake internal program management reviews and, in consultation with key stakeholders, develop a revised funding model.

DEEWR agrees to the report's four recommendations.

Appendix 2: Types of childcare

The following definitions are from the COAG Early Childhood Development Steering Committee, *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, July 2009.

Type of Child Care	Definition
Long Day Care	Long Day Care (LDC) is a centre-based form of childcare service. LDC services provide all day or part-time care for children aged birth to six years who attend the centre on a regular basis. Care is generally provided in a building, or part of a building, that has been created or redeveloped specifically for use as a childcare centre, and children are usually grouped together in rooms according to age. Centers typically operate between 7.30am and 6.00pm on normal working days for 48 weeks per year so that parents can manage both the care of their children and the demands of their employment. LDC centers are required to deliver an appropriate program for children.
Family Day Care	Family Day Care (FDC) is where a professional carer provides flexible care in their own home for other people's children. Care is predominantly provided for children aged from birth to six years who are not yet at school, but may also be provided for school-aged children. Carers can provide care for the whole day, part of the day, or for irregular or casual care.
Outside School Hours Care	Outside School Hours Care (OSHC) services provide care for primary school-aged children (typically aged five to 12 years) before and after school generally operates, during school holidays (vacation care), and on pupil free days. OSHC services are usually provided from primary school premises such as the school hall and/or playground. Services may also be located in childcare centres, community facilities or other OSHC centres located near the primary school.
Preschool	Preschool is a planned sessional educational program, primarily aimed at children in the year before they start full-time schooling. Preschool programs are usually play-based educational programs designed and delivered by a degree-qualified early childhood teacher. All states and territories provide funding for eligible children to access a preschool program in the year prior to school entry. In Tasmania, Victoria, Western Australia, and Queensland, the preschool year is known as kindergarten.
In-home Care	In Home Care (IHC) is similar to FDC but the professional care is provided in the child's own home. IHC is not widely available and is usually only an option where other forms of care are not suitable. This usually arises in circumstances where it is difficult for the child to be cared for outside the home; for example if the child has a disability and the home is structured especially for them.

Type of Child Care	Definition
Occasional Care	<p>Occasional Care is a centre-based childcare service that provides professional care for children aged from birth to five years who attend the service on an hourly or sessional basis for short periods or at irregular intervals. This type of care is used by parents who do not need professional childcare on a regular basis but would like someone to look after their child occasionally; for example, if they have to attend a medical appointment or take care of personal matters. Occasional care is sometimes referred to as crèche.</p>
Indigenous Non-Mainstream Services	<p>Indigenous Non-Mainstream Services are provided by not-for-profit organisations and are delivered mainly in rural, remote or Indigenous communities, providing access to early childhood learning and childcare where the market would otherwise fail to deliver. Types of Indigenous non-mainstream services include:</p> <ul style="list-style-type: none"> • flexible/innovative services; • mobile childcare services; • Multifunctional Aboriginal Children's Services; • Indigenous playgroups; • Indigenous OSHC and enrichment programs; and • crèches including Jobs, Education and Training crèches. <p>These services can also provide a mix of service or program types listed above.</p>

Source: COAG Early Childhood Development Steering Committee, *Regulation Impact Statement for Early Childhood Education and Care Quality Reforms*, July 2009, pp. 2-3.

Series Titles

ANAO Audit Report No.1 2010–11

Implementation of the Family Relationship Centres Initiative

Attorney-General's Department

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.2 2010–11

Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List

Infrastructure Australia

ANAO Audit Report No.3 2010–11

The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program

Department of Infrastructure, Transport, Regional Development and Local Government

ANAO Audit Report No.4 2010–11

National Security Hotline

Australian Security Intelligence Organisation

Attorney-General's Department

Australian Federal Police

ANAO Audit Report No.5 2010–11

Practice Incentives Program

Department of Health and Ageing

Medicare Australia

ANAO Audit Report No.6 2010–11

The Tax Office's implementation of the Client Contact - Work Management - Case Management System

Australian Taxation Office

ANAO Audit Report No.7 2010–11

Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2009 Compliance)

Current Better Practice Guides

The following Better Practice Guides are available on the Australian National Audit Office website.

Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base	Sep 2010
Implementing Better Practice Grants Administration	June 2010
Planning and Approving Projects an Executive Perspective	June 2010
Innovation in the Public Sector Enabling Better Performance, Driving New Directions	Dec 2009
SAP ECC 6.0 Security and Control	June 2009
Preparation of Financial Statements by Public Sector Entities	June 2009
Business Continuity Management Building resilience in public sector entities	June 2009
Developing and Managing Internal Budgets	June 2008
Agency Management of Parliamentary Workflow	May 2008
Public Sector Internal Audit An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Developing and Managing Contracts Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives: Making implementation matter	Oct 2006
Legal Services Arrangements in Australian Government Agencies	Aug 2006
Administration of Fringe Benefits Tax	Feb 2006

User-Friendly Forms	
Key Principles and Practices to Effectively Design and Communicate Australian Government Forms	Jan 2006
Public Sector Audit Committees	Feb 2005
Fraud Control in Australian Government Agencies	Aug 2004
Better Practice in Annual Performance Reporting	Apr 2004
Management of Scientific Research and Development Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	July 2003
Goods and Services Tax (GST) Administration	May 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Performance Information in Portfolio Budget Statements	May 2002
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	June 2001
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Commonwealth Agency Energy Management	June 1999
Controlling Performance and Outcomes	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997

Index

A

Allocation, 18–19, 33–34, 43, 47–48, 61
Australian Government, 4, 8, 13, 15, 18–19,
29–30, 32, 34, 43–47, 57, 60, 62, 72–73

B

Budget Based Funding, 6–8, 13–17, 19,
21–22, 24–25, 31, 33, 36–41, 43–45,
47–48, 50–51, 55–57, 59–60, 65–68

C

Capacity building, 21, 49
Compliance, 16, 22, 37, 60–61, 71
Culturally competent, 14, 16, 25, 31, 39–40,
66

F

Funding agreement managers, 17, 19–22,
33, 47–51, 59, 60, 62, 67
Funding agreements, 6, 15–16, 18–23, 33,
35–36, 41–42, 45, 47–48, 51, 59–61, 67

G

Guidelines, 15, 17, 29, 35, 40–41, 50, 57,
59, 66

O

Objectives, 6, 14, 16–17, 22, 25, 29, 35–36,
38–40, 44, 55–56, 66

P

Performance indicators, 16, 25, 35–36, 40,
56–58, 66, 68
Program administration, , 4, 14–18, 20, 21,
22–25, 33, 35–36, 38, 40–42, 47–48, 50,
55–57, 59–62, 65–68, 71–73

R

Remote and very remote Indigenous
communities, 14–16, 18, 20, 22, 29–31,
37, 39, 44, 46–47, 49–50, 52–54, 56,
60–61, 67, 70

S

Service providers, 6, 13–25, 29, 31, 33–38,
40–68

T

Transition, 16, 18–19, 38, 42, 44–46, 67

V

Viability, 16, 25, 40, 66