Design and Governance of the Child Care Package

Department of Education

Canberra ACT

30 September 2019

Dear Mr President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Education. The report is titled *Design and Governance of the Child Care Package*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

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

Yours sincerely

Rona Mellor PSM
Acting Auditor-General

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

Audit team

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Summary and recommendation

Background

1.   In the December 2018 quarter more than 1.3 million children used approved child care in Australia — representing 32 per cent of Australia's children aged 12 years and under. The Australian Government has been providing child care fee assistance since 1972. Between mid-2000 and mid-2018, the Child Care Benefit[1] and Child Care Rebate[2] were the two most widely used forms of child care fee assistance.

Child Care Package

2.   The Australian Government announced the new Child Care Package (the Package) on 10 May 2015, with the policy objective to deliver 'a simpler, more affordable, more flexible and more accessible child care system' and 'to help parents who want to work or work more'.[3] The Package comprises the Child Care Subsidy ($35.7 billion over four years from 2019–20) and support for the child care system, including the Child Care Safety Net ($1.4 billion over four years from 2019–20).

3.   The Department of Education[4] (the department) is the policy owner, accountable authority and lead entity with responsibility for implementing the child care reforms that make up the Package.[5] The department engaged Services Australia[6] under service delivery arrangements to deliver information technology (IT) services and manage the child care subsidy payments. The department also has a memorandum of understanding with the Department of Social Services for the delivery of information and communication technology (ICT) services.

4.   The *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017*, which outlined the new Package arrangements and requirements, was enacted on 4 April 2017, and the Package took effect on 2 July 2018.

Child Care Subsidy

5.   The Child Care Subsidy (the subsidy) is the centrepiece of the Package. It replaced the Child Care Benefit and the Child Care Rebate as a single means-tested subsidy to be paid to child care

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1   The Child Care Benefit was introduced on 1 July 2000, replacing Childcare Assistance and the Childcare Cash Rebate. It was a means-tested payment designed to help low and middle-income families with the cost of child care.

2   The Child Care Rebate was introduced in 2005 as a non-means-tested payment providing families who were eligible for the Child Care Benefit with additional financial assistance.

3   The Hon S Morrison MP, (Minister for Social Services), 'Jobs for families child care package delivers choice for families', media release, Parliament House, Canberra, 10 May 2015.

4   The Department of Education and Training became the Department of Education under the Administrative Arrangements Order of 29 May 2019.

5   The Administrative Arrangements Order of 23 December 2014 transferred responsibility for child care functions from the department to the Department of Social Services (DSS). Nine months later, the Administrative Arrangements Order of 21 September 2015 transferred child care functions from DSS back to the department.

6   For most of the period covered by the audit, Services Australia was called the Department of Human Services. The Department of Human Services became Services Australia under the Administrative Arrangements Order of 29 May 2019. The ANAO refers to this department as Services Australia throughout this report.

service providers (providers) and passed on to families as a fee reduction. In addition to basic eligibility requirements, the amount of subsidy entitlement is determined by a combination of family income, hours of activity and the type of child care service used.

Child Care Safety Net

6.   The Child Care Safety Net comprises three main elements: the Additional Child Care Subsidy; the Community Child Care Fund (including Connected Beginnings); and the Inclusion Support Program. These programs aim to provide additional support to disadvantaged or vulnerable communities and families.

Rationale for undertaking the audit

7.   The Australian Government has provided financial support for child care since 1972 and established a new Child Care Package in 2018, with the objective to deliver a simpler, more affordable, more flexible and more accessible child care system that would help parents who want to work or work more. More than 1.3 million children used approved child care in the December 2018 quarter. This audit examines whether the new Package has been designed to support the achievement of the policy objectives and is being governed effectively.

Audit objective and criteria

8.   The audit objective was to assess the effectiveness of the Department of Education's design and governance of the Child Care Package.

9.   To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- Was the Child Care Package designed to support the achievement of the Australian Government's policy objectives?
- Have sound arrangements been established and implemented to support the transition to, and management of, the Child Care Package?

Conclusion

10.   The Department of Education's design and governance of the Child Care Package was largely effective, except that the focus on key policy objectives for the Package in key documentation has diminished over time and ongoing oversight arrangements were not established in a timely manner.

11.   The department's design of the Package to support the achievement of the Australian Government's policy objectives was largely effective. The department considered impacts on key stakeholders in the design of the Package, implemented an effective engagement strategy and provided appropriate advice to the Australian Government at key stages of design and implementation. Objectives were developed for the Package that aligned with the Australian Government's policy objectives, however, these have not been consistently stated in departmental documents and the focus on key policy objectives in these documents, such as greater workforce participation, has diminished over time.

12.   Sound arrangements were implemented to support the transition to the Package. Arrangements for the management of the Package are being implemented, with frameworks

established for the Package's risk management, compliance, performance management and evaluation activities. However, oversight arrangements for the management of the Package, were not established in a timely manner and are still under development.

Supporting findings

13.   Objectives were developed for the Package that aligned with the Australian Government's policy objectives. The focus on key policy objectives, such as greater workforce participation, has not been consistently or accurately stated in key departmental documents such as the 2018 Corporate Plan and Package planning, governance and communications documents.

14.   Impacts on key stakeholders, such as families and child care service providers, were considered in the design of the Package.

15.   An effective engagement strategy was developed and implemented for the Package.

16.   Appropriate advice was provided to the Australian Government on the design and implementation of the Child Care Package.

17.   Effective arrangements were established and implemented to assist key stakeholders, including families and child care providers, to transition to the new package arrangements in a timely manner, with 88.1 per cent (1,024,359 of 1,162,908) of the families who had been invited to transition and 99.9 per cent of child care providers transitioning by the 2 July 2018 deadline.[7]

18.   Effective oversight arrangements were established and implemented for the transition to the Package. Oversight arrangements for the ongoing management of the Package were not established in a timely manner and are still under development.

19.   Effective risk management plans, which were consistent with the department's entity-wide risk management policy and framework, have been established and implemented for the Package.

20.   A compliance framework has been established for the Package, building on prior compliance strategies and activities, and is in the process of being implemented.

21.   A performance management framework has been established for the Package which has the potential to be effective.

22.   An evaluation framework has been developed and is being implemented, with the first report finalised in July 2019 and the final report expected in June 2021.

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7   1,024,359 of the 1,162,908 families invited to transition completed the transition process by 2 July 2018. The Department advised that some families invited to transition in April 2018 would have ceased using child care by 2 July 2018 due to changes in their circumstances and hence did not need to transition.

Recommendation

The department ensure that the Child Care Package objectives are accurately described in internal and external documents and are consistent with the Australian Government's key policy objectives, such as greater workforce participation.

Department of Education response: *Agreed.*

Department of Education response

23.   The proposed report was provided to the Department of Education. The Department's summary response is below and its full response is at Appendix 1.

> The department welcomes the ANAO's report and will use the findings and observations from the report to inform and enhance ongoing Package implementation and delivery arrangements. The recommendation is agreed and the ANAO's suggested area for improvement regarding oversight arrangements for the Package will also be used to strengthen existing arrangements including where service delivery is outsourced to another entity.

Key messages from this audit for all Australian Government entities

24.   Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Australian Government entities.

Policy/program design
- When designing major policy initiatives, it is good practice to dedicate sufficient time and resources for meaningful consultation with affected stakeholders and consideration of how elements of the policy design will impact these stakeholders. This has been a strength of the department in designing the Package.

Governance and risk management
- Outsourcing service delivery (for example, IT services) does not reduce an entity's accountability responsibilities. As the entity remains accountable for all elements of delivery, it should ensure that effective oversight arrangements are established in a timely manner, service and quality control expectations are agreed and maintained and its business is appropriately prioritised, to help provide assurance that policy objectives are being met.

Performance and impact measurement
- Evaluation is a critical element of establishing accountability for program performance against objectives and providing insight to ensure ongoing improvement in program impact. It is good practice to consider the evaluation approach early and to establish an evaluation framework during the design phase, as was done by the department.

Audit findings

1. Background

1.1   In the December 2018 quarter more than 1.3 million children used approved child care in Australia — representing 32 per cent of Australia's children aged 12 years and under.[8] The majority of these children (57 per cent) attended centre-based day care, 36 per cent attended outside school hours care and 10 per cent attended family day care.[9]

1.2   The Australian Government has provided child care fee assistance since 1972. Between mid-2000 and mid-2018, the Child Care Benefit[10] and Child Care Rebate[11] were the two most widely used forms of child care fee assistance. The Child Care Benefit was a means-tested payment designed to help low and middle-income families with the cost of child care. The Child Care Rebate was a non-means-tested payment providing families who were eligible for the Child Care Benefit with additional financial assistance.

Child Care Package

1.3   The Australian Government announced the new Child Care Package (the Package) on 10 May 2015, with the policy objective to deliver 'a simpler, more affordable, more flexible and more accessible child care system' and 'to help parents who want to work or work more'.[12] The Package comprises the Child Care Subsidy ($35.7 billion over four years from 2019–20) and support for the child care system, including the Child Care Safety Net ($1.4 billion over four years from 2019–20), as outlined at Figure 1.1.

Figure 1.1:   Main elements of the Child Care Package

Source: ANAO representation of Department of Education documentation.

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8   Further data on emerging results under the Package for the December quarter 2018 are provided in Appendix 2.

9   As children may use more than one service type, the percentages total more than 100 per cent.

10   The Child Care Benefit was introduced on 1 July 2000, replacing Childcare Assistance and the Childcare Cash Rebate.

11   The Child Care Rebate was introduced in 2005.

12   The Hon S Morrison MP, (Minister for Social Services), 'Jobs for families child care package delivers choice for families', media release, Parliament House, Canberra, 10 May 2015.

1.4   The Department of Education[13] (the department) is the policy owner, accountable authority and lead entity with responsibility for implementing the child care reforms that make up the Package.[14] The department engaged Services Australia[15] under service delivery arrangements to deliver information technology (IT) services and manage the child care subsidy payments. The department also has a memorandum of understanding with the Department of Social Services for the delivery of information and communication technology (ICT) services.

1.5   The *Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017*, which outlined the new Package arrangements and requirements, was enacted on 4 April 2017, and the Package took effect on 2 July 2018. A timeline outlining the key elements of the Package's design and implementation process is provided at Figure 1.2.

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13   The Department of Education and Training became the Department of Education under the Administrative Arrangements Order of 29 May 2019.

14   The Administrative Arrangements Order of 23 December 2014 transferred responsibility for child care functions from the department to the Department of Social Services (DSS). The Administrative Arrangements Order of 21 September 2015 transferred child care functions from DSS back to the department.

15   The Department of Human Services became Services Australia under the Administrative Arrangements Order of 29 May 2019.

Figure 1.2:   Child Care Package timeline

August 2014
Head Agreement signed between the department and Services Australia

December 2014
Child care functions moved from the department to the Department of Social Services

September 2015
Child care functions moved to the department from the Department of Social Services

August 2017
MOU signed between the department and the Department of Social Services

November 2017
Package Evaluation Program commenced

May 2018
Package Evaluation Framework published

June 2018
Services Schedule signed between the department and Services Australia

May 2019
Updated MOU signed between the department and the Department of Social Services

July 2019
Child Care Package Evaluation: Early Monitoring Report finalised

November 2013 - October 2014
Productivity Commission Inquiry into Childcare and Early Childhood Learning

May 2015
Child Care Package announced (2015-16 Budget)

July 2016
Inclusion Support and Connected Beginnings programs commenced

4 April 2017
Family Assistance Legislation Amendment (Jobs for Families Child Care Package) Act 2017 received assent

2 July 2018
Child Care Package commenced

Design

Implementation

Source: ANAO analysis.

Child Care Subsidy

1.6   The Child Care Subsidy (the subsidy) is the centrepiece of the Package. The subsidy replaced the Child Care Benefit and the Child Care Rebate, with key changes to the system including:

- a single means-tested subsidy payment instead of the two prior payments (with the Child Care Benefit means tested and the Child Care Rebate not means tested);

- the subsidy rate more closely linked to income levels than before, with the aim to make child care more affordable for low and middle income families (see Table 1.1);

- the subsidy paid directly to child care service providers[16] (providers) and passed on to families as a fee reduction[17];

- no annual cap for incomes up to $188,163 (2019–20) and an increased annual cap of $10,373 (2019–20), up from $7613 for the Child Care Rebate (2017–18) for families with incomes above this threshold; and

- a tightened activity test (see Table 1.2).

1.7   To be eligible to receive the subsidy, families must meet the following basic requirements: the child must be 13 years or under and not attending secondary school; the child must meet immunisation requirements; and the individual, or their partner, receiving the subsidy for a child must meet residency requirements.

1.8   The amount of subsidy entitlement is determined by a combination of family income, hours of activity and the type of child care service used, as discussed in the following sections.

Family Income

1.9   Combined family income determines the percentage of subsidy a family can receive, with lower income families receiving higher rates of subsidy. Table 1.1 illustrates the relationship between combined family income and rate of subsidy entitlement.

Table 1.1:   Subsidy rate by family income level, 2019–20

Subsidy rate	Combined family income[a]
85 per cent	Up to $68,163
Gradually reducing to 50 per cent[b]	Over $68,163 to under $173,163
50 per cent	$173,163 to under $252,453
Gradually reducing to 20 per cent[b]	$252,453 to under $342,453
20 per cent	$342,453 to under $352,453
0 per cent	$352,453 or more

Note a: Income amounts are subject to adjustment through annual indexation.
Note b: Subsidy gradually decreases by one per cent for each $3000 of family income.
Source: ANAO representation of Department of Education documentation.

1.10   In 2019–20 if a family earns more than $188,163 and less than $352,453, child care costs are subsidised up to an annual cap of $10,373 for each child for the financial year.[18]

Hours of activity

1.11   The hours of subsidised care a family can access each fortnight is determined by an activity test. Recognised activities include paid work, volunteering, study of an approved course or setting up a business. The parent with the least hours of activity each fortnight determines the hours of

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16   The department defines a provider as 'an individual, business or organisation that delivers child care services' and a service as 'child care that is delivered by a provider at a particular site'. One provider may deliver one or more services, which may include different service types and/or service sites.

17   The Child Care Benefit and Child Care Rebate were able to be provided to either the provider or the family, according to the family's preference.

18   The annual cap is indexed each year.

subsidised care a child can receive. The relationship between hours of activity and maximum hours of subsidy for each fortnight is outlined in Table 1.2.

Table 1.2: Subsidy activity test

Hours of recognised activity (a fortnight)	Maximum hours of subsidised care (a fortnight)
Less than 8 hours	0 hours[a]
8 hours to 16 hours	36 hours
More than 16 hours to 48 hours	72 hours
More than 48 hours	100 hours

Note a: Families on $68,163 or less in 2019–20 are entitled to up to 24 hours of subsidised care under the Child Care Safety Net.

Source: ANAO representation of Department of Education documentation.

Child care service type

1.12   An hourly rate cap is placed on the amount of subsidy a family can receive for each child. This rate cap is determined by the service type used, as outlined in Table 1.3.

Table 1.3: Subsidy hourly rate caps by service type, 2019–20

Service type	Subsidy hourly rate cap[a]
Centre Based Day Care	$11.98
Family Day Care	$11.10
Outside School Hours Care	$10.48
In Home Care[b]	$32.58

Note a: Hourly rate caps are subject to adjustment through annual indexation.

Note b: Subsidy hourly rate caps are by child, except for the In Home Care service type cap, which is by family.

Source: ANAO representation of Department of Education documentation.

Child Care Safety Net

1.13   The Child Care Safety Net comprises three main elements: the Additional Child Care Subsidy; the Community Child Care Fund (including Connected Beginnings); and the Inclusion Support Program. These programs aim to provide additional support to disadvantaged or vulnerable communities and families.

Additional Child Care Subsidy

1.14   The Additional Child Care Subsidy is a top-up payment in addition to the Child Care Subsidy that is designed to provide further assistance to families facing barriers to accessing affordable child care. These families include: those that require practical help to support their children's safety and wellbeing; those where grandparents are the principal carers and are on income support; those

experiencing temporary financial hardship[19]; or those with parents transitioning from income support to work. Elements of the Additional Child Care Subsidy are outlined in Table 1.4.

Table 1.4:   Elements of the Additional Child Care Subsidy

Element	Activity test exempt	Maximum hours of subsidy (a fortnight)	Maximum hourly subsidy
Child wellbeing	Yes	100 hours	120 per cent of the Child Care Subsidy hourly rate cap (up to actual costs)
Grandparent	Yes	100 hours	
Temporary financial hardship[a]	Yes	100 hours	
Transition to work	No	According to the activity test	95 per cent of the Child Care Subsidy hourly rate cap

Note a: The subsidy is paid for a maximum of 13 weeks for each event.

Source: ANAO analysis of Department of Education documentation.

Community Child Care Fund

1.15   The Community Child Care Fund is a grants program providing additional funding to child care service providers in rural, regional or vulnerable communities. Under the Community Child Care Fund, eligible providers can apply for supplementary funding to:

- reduce the barriers in accessing child care, particularly for disadvantaged or vulnerable families and communities;

- provide sustainability support for child care services experiencing viability issues; and

- provide capital support to increase the supply of child care places in areas of high unmet demand.

1.16   A sub-section of the Fund is the Connected Beginnings grants program, which commenced in July 2016 and supports projects in Aboriginal and Torres Strait Islander communities of high need. Connected Beginnings is designed to support the integration of early childhood, maternal and child health and family support services with schools in Aboriginal and Torres Strait Islander communities experiencing disadvantage, so that children are well prepared for school.

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19   The Additional Child Care Subsidy (temporary financial hardship) is available to families where an individual is experiencing temporary financial hardship which has caused a substantial reduction in their ability to pay child care fees due to: the death of a partner or child of the individual; unexpected loss of employment of the individual, or a partner of the individual; loss of income or business failure of an individual, or the partner of the individual, due to circumstances outside of their, or their partner's, control (such as serious illness); loss of income of the individual, due to the death of a former partner who was providing ongoing financial assistance in relation to their child; the individual, or their partner, has been adversely affected by a major disaster event; destruction of, or severe damage to, the individual, or their partner's, home; the individual having to leave home and not being able to return because of an extreme circumstance (such as domestic violence); and where an individual is still living at home and a family member has left or has been removed because of domestic violence against the individual.

Inclusion Support Program

1.17   The Inclusion Support Program commenced on 1 July 2016 and assists child care providers in improving their capabilities with the aim of bringing children with additional needs into mainstream child care services. The program has two main objectives:

- to support mainstream child care providers to improve their capacity and capability to provide quality inclusive practices, address participation barriers and include children with additional needs alongside their peers; and

- to provide parents and carers of children with additional needs with access to appropriate child care services that assist those parents to participate in the workforce.

Rationale for undertaking the audit

1.18   The Australian Government has provided financial support for child care since 1972 and established a new Child Care Package in 2018, with the objective to deliver a simpler, more affordable, more flexible and more accessible child care system that would help parents who want to work or work more. More than 1.3 million children used approved child care in the December 2018 quarter. This audit examines whether the new Package has been designed to support the achievement of the policy objectives and is being governed effectively.

Audit approach

Audit objective, criteria and scope

1.19   The audit objective was to assess the effectiveness of the Department of Education's design and governance of the Child Care Package.

1.20   To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- Was the Child Care Package designed to support the achievement of the Australian Government's policy objectives?

- Have sound arrangements been established and implemented to support the transition to, and management of, the Child Care Package?

1.21   The audit focused on:

- design of the Child Care Package;

- implementation of the Child Care Reform Program;

- management of the transition to the Child Care Subsidy from the Child Care Benefit and Child Care Rebate; and

- governance arrangements established to support the implementation and ongoing management of the Child Care Package.

Audit methodology

1.22   In undertaking the audit, the ANAO:

- examined documentation and data held by the department relating to the design and governance of the Child Care Package;

- reviewed 60 submissions sent to the ANAO from the public — 35 from child care providers, six from peak bodies and 19 from individuals; and

- interviewed relevant departmental staff.

1.23 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately $299,000. The team members for this audit were Brendan Gaudry, Jennifer Eddie, Elizabeth Robinson and Deborah Jackson.

2. Design of the Child Care Package

Areas examined

This chapter examines whether the Child Care Package (the Package) was effectively designed to support the achievement of the Australian Government's policy objectives.

Conclusion

The department's design of the Package to support the achievement of the Australian Government's policy objectives was largely effective. The department considered impacts on key stakeholders in the design of the Package, implemented an effective engagement strategy and provided appropriate advice to the Australian Government at key stages of design and implementation. Objectives were developed for the Package that aligned with the Australian Government's policy objectives, however, these have not been consistently stated in departmental documents and the focus on key policy objectives in these documents, such as greater workforce participation, has diminished over time.

Area for improvement

The ANAO has made one recommendation aimed at ensuring that Package objectives are accurately described and are consistent with the Australian Government's key policy objectives.

2.1   On 21 September 2015 child care functions and the responsibility for the Package were transferred from the Department of Social Services (DSS) to the Department of Education (the department).[20] The department subsequently established the Child Care Reform Program to finalise the design and deliver the Package. In order to assess whether the department designed the Package to support the achievement of the Australian Government's policy objectives, the ANAO examined whether: clear objectives were developed for the Package that aligned with the Australian Government's policy objectives; impacts on key stakeholders were considered in the design of the Package; an engagement strategy was developed and implemented; and appropriate advice was provided to the Australian Government on design and implementation.

Were clear objectives developed for the Package that aligned with the Australian Government's policy objectives?

Objectives were developed for the Package that aligned with the Australian Government's policy objectives. The focus on key policy objectives, such as greater workforce participation, has not been consistently or accurately stated in key departmental documents such as the 2018 Corporate Plan and Package planning, governance and communications documents.

2.2   In April–May 2015 the government approved a child care reform package that: included a workforce participation stream that focused on the subsidy and an early childhood safety net; and

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20   The Administrative Arrangements Order of 23 December 2014 transferred child care functions from the Department of Education to DSS. The Administrative Arrangements Order of 21 September 2015 transferred child care functions from DSS to the department.

was designed to deliver a simpler more affordable child care system that encouraged workforce participation.

2.3   In May 2015 the Australian Government announced the policy objectives of the Package in a media announcement by the Minister for Social Services, which stated that the Package would deliver 'a simpler, more affordable, more flexible and more accessible child care system' that would help 'parents who want to work or work more'.[21]

2.4   The 2015–16 budget did not mention the objective of making the child care system simpler, but included the other key objectives, stating under Outcome 2 (Families and Communities) that:

- the Package would 'deliver on the government's commitment to a more affordable, accessible and flexible child care system' and 'facilitate economic growth by encouraging workforce participation'; and

- the 'workforce participation stream is the key element of the Package and consists of a Child Care Subsidy based on family income, with the objective of encouraging families into work or other community based engagement'.[22]

2.5   Following the return of child care functions to the department from DSS in September 2015, the department developed objectives for the Package that aligned with the Australian Government's policy objective to deliver 'a simpler, more affordable, more flexible and more accessible child care system' that would help 'parents who want to work or work more'.[23] These objectives were published in the department's portfolio budget statements, corporate plan and internal planning and governance documents, however, these objectives were not consistently stated in departmental documents.

2.6   The department's 2016–17 Portfolio Budget Statements included the Package as one of the department's key priorities in its Strategic Direction Statement: 'progressing the implementation of the Jobs for Families Child Care Package to make the system simpler, more flexible, more accessible and more affordable'.[24] This statement omitted greater workforce participation, but included the other policy objectives. The document was not internally consistent, with the objectives under the department's Outcome 1 mentioning accessibility, affordability and workplace participation, but excluding the objectives of a simpler system and a more flexible system. The department's subsequent portfolio budget statements (2017–18, 2018–19 and 2019–20), also did not explicitly include the objectives of a simpler system and more flexible system under Outcome 1, as outlined in Table 2.1.

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21   The Hon S Morrison MP, (Minister for Social Services), 'Jobs for Families child care package delivers choice for families', media release, Parliament House, Canberra, 10 May 2015.

22   Department of Social Services, Portfolio Budget Statements 2015–16, p. 85.

23   The Hon S Morrison MP, (Minister for Social Services), 'Jobs for Families child care package delivers choice for families', media release, Parliament House, Canberra, 10 May 2015.

24   Originally, the Package was the 'Jobs for Families Child Care Package' but the title was shortened to the "Child Care Package" in the department's 2016–17 Annual Report.

Table 2.1: Package objectives as reported in the department's corporate plans and portfolio budget statements

Policy objective	2016–17		2017–18		2018–19		2019–20
	PBS[a]	Corporate Plan	PBS	Corporate Plan	PBS	Corporate Plan	PBS
Child care is simpler	✗	✗	✗	✗	✗	✗	✗
Child care is more accessible	✓	✓	✓	✓	✓	✓	✓
Child care is more affordable	✓	✓	✓	✓	✓	✗	✓
Child care is more flexible	✗	✓	✗	✗	✗	✗	✗
Greater workforce participation	✓	✓	✓	✓	✓	✗	✓

Note a: Portfolio Budget Statements.

Source: ANAO analysis of the Department of Education's corporate plans and portfolio budget statements.

2.7   The department's 2016 Corporate Plan did not include the objective of a simpler child care system, but included the other objectives, stating that the objective of the Package was to 'create a more sustainable system that encourages greater workforce participation, while addressing children's learning and development needs' and to 'make child care more affordable, accessible and flexible'. The department's 2017 Corporate Plan omitted the objectives of a simpler system and a more flexible system, but included the other objectives. The 2018 Corporate Plan omitted all key policy objectives except for more accessibility.

2.8   The department's aim and vision for the Package, outlined in many of the department's internal planning and governance documents did not include the policy objective of greater workforce participation, which was one of the government's key policy objectives. For example, the department's Child Care Reform Program Management Plan (January 2018), Child Care Reform Program Risk Management Plan (January 2018), Child Care Reform Change Management Plan (February 2018), Child Care Reform Program Issue Management Plan (January 2018) and Child Care Reform Governance Plan (May 2018) all stated that:

> The Package aims to make the child care system more flexible, more accessible, more affordable and targeted to those who need it most. […] The vision for the new Child Care Package is: *Simpler, more flexible, more accessible, affordable and targeted child care system supported by world class technology*.

2.9   The department prepared a Child Care Subsidy Project Plan in 2015 that reiterated the government's policy objectives, stating that:

> This project will provide an opportunity to produce strategic and operational policies to give effect to the Child Care Subsidy in a way that supports families with access to quality, flexible and affordable child care to assist them to enter and remain in the workforce. [… The Subsidy] will be simpler for families to understand than the current multiple payment system.

2.10   The department's Communications Strategy for the 'National Child Care Plan' campaign[25] stated that the aim of the campaign was to inform parents about the proposed changes to the child care system which would make it simpler, more affordable, more accessible and more flexible. The policy objective of greater workforce participation was omitted from this statement, but was mentioned later in the document when discussing Package details and key issues for the campaign.

2.11   The focus on core policy objectives, such as encouraging workforce participation, in key departmental documents diminished over time. Other key department documents, such as the Stakeholder Engagement and Communication Strategic Plan, the Early Learning and Child Care Communication Strategy 2019 and the Child Care Provider Handbook did not discuss the objectives of the Package.

2.12   To help ensure that the department's implementation of the Package aligns with the government's policy intent, the department could more accurately and consistently state the government's key policy objectives, such as greater workforce participation, in its portfolio budget statements, corporate plans and Package planning, governance and communications documents.

Recommendation no.1

2.13   The department ensure that the Child Care Package objectives are accurately described in internal and external documents and are consistent with the Australian Government's key policy objectives, such as greater workforce participation.

Department of Education response: *Agreed.*

2.14   *The department agrees with the recommendation and will ensure that the Australian Government's key policy objectives for the Child Care Package are accurately and consistently stated in all relevant documentation at the entity and program level.*

Were the impacts on key stakeholders considered in the design of the Package?

Impacts on key stakeholders, such as families and child care service providers, were considered in the design of the Package.

2.15   When designing the Package, impacts on key stakeholders were considered through: a Productivity Commission inquiry and public consultation on child care and early childhood learning; a behavioural micro-simulation model for the child care sector; a child care forward estimates model; a Regulation Impact Statement and consultation process; and stakeholder councils and reference groups. These processes are discussed below.

2.16   In November 2013 the Treasurer requested that the Productivity Commission undertake an inquiry into child care and early childhood learning. The Australian Government's objectives in commissioning the inquiry were to examine and identify future options for a child care and early childhood learning system that, among other things: supports workforce participation; addresses children's learning and development needs; is more flexible; and supports flexible, affordable and

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25   The 'National Child Care Plan' communications campaign is discussed at paragraph 3.5.

accessible quality child care and early childhood learning. The Productivity Commission's findings in relation to the government's key policy objectives for child care reforms are outlined at Table 2.2.

Table 2.2:   Productivity Commission inquiry findings on child care reform policy objectives

Policy objective	Productivity Commission inquiry findings
Simpler	Child care fee assistance arrangements were complex and difficult for parents and providers to navigate and calculate. The Commission indicated its recommended reforms should make the child care system simpler.
Accessible	There were shortfalls in providing access and supporting the needs of children with disabilities and vulnerable children, regional and rural families and parents who were moving from income support into study and employment. The Commission indicated its recommended reforms should make the child care system more accessible.
Affordable	Families were struggling to find quality child care that was affordable. The Commission indicated that: reforms primarily aimed at making child care more flexible and accessible should also improve affordability; and recommended reforms were not all aimed at making child care less costly to all families, as it also considered what was affordable for taxpayers more broadly.
Flexible	Families struggled to find quality child care that was flexible enough to meet their needs. Improving the flexibility of child care arrangements would ideally be complemented by improvements in the flexibility of workplaces for parents. The Commission indicated its recommended reforms should make the child care system more flexible.
Workforce participation	Participation in the workforce is affected by many factors other than child care costs (including flexible work arrangements, other government family payments and support of partners). The accessibility and affordability of child care are important, but not the only factors, that discourage parents from working. The Commission estimated that its recommended reforms would increase the workforce participation of mothers by 1.2 per cent.

Source: ANAO analysis of Productivity Commission, *Childcare and Early Childhood Learning: Overview*, Inquiry Report, No. 73, Canberra, 2014.

2.17   The October 2014 report included analysis of the child care market, the affordability, accessibility and flexibility of child care in Australia and how to increase workplace participation.[26] The inquiry involved more than 2000 submissions and comments, public hearings and consultation with child care service providers and families who use these services. Further, the Commission created a behavioural micro-simulation model for the child care sector to examine the impacts of the recommended reforms on key stakeholders. The model simulated immediate child care and labour force responses of families to complex changes in child care arrangements, given existing tax and welfare settings. The Commission used this model to inform its recommendations for the design of child care reforms.

2.18   The department developed a child care forward estimates model for the 2016–17 Mid-Year Economic and Fiscal Outlook and updated the model for the 2017–18 Budget. The departmental models examined how families would be affected by the different policy design elements, such as the activity test, the hourly rate cap and subsidy percentages based on income. The department

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26   Productivity Commission, *Childcare and Early Childhood Learning: Overview,* Inquiry Report, No. 73, Canberra, 2014.

made improvements for the 2017–18 model, such as using a year's worth of child care administrative data (60 million records) as the basis, instead of a single week's worth of data (1 million records) as had been the case for the previous model. As the updated model was based on a larger number of records, the department was better placed to more accurately determine the impacts of policy elements and to make adjustments.

2.19   The department published a Regulation Impact Statement for consultation on 29 June 2015 and invited members of the public to review the implementation options for the Package and provide feedback by 31 July 2015. About 1700 individuals and organisations participated in the consultation. The Regulation Impact Statement included a consideration of the impact of the proposed Package on families, providers, communities and governments.

2.20   The Regulation Impact Statement includes examples of stakeholder feedback, which was taken into account in the design of the Package, such as:

- broad support for a single subsidy;

- that a minimum co-contribution from all child care users was seen by stakeholders as acceptable, fair and necessary; and

- that families and sector representatives broadly support a closer alignment between the number of hours of subsidised care and the level of work, training, study or other recognised activity by the family.[27]

2.21   In relation to impact on workforce participation, the Regulation Impact Statement noted that:

> While it is difficult to estimate the impacts on workforce participation due to data limitations and behavioural variables, it is expected the Jobs for Families Child Care Package will encourage families to increase their involvement in paid employment. It is expected that families increasing their workforce participation will do so by a small amount of activity. A marginal attachment to the workforce could grow over time and result in a stronger workforce participation impact.[28]

2.22   In relation to impact on child care fees, the Regulation Impact Statement noted that:

> A co-contribution should encourage families to consider their child care service options and, in combination with a tighter activity test, exert downward pressure on fee prices. This is expected to help increase affordability for families, particularly low income families, as well as help minimise growth in Government child care fee expenditure. The Child Care Subsidy rate will also assist in improving budget sustainability for Government as less assistance is targeted to higher income families.[29]

2.23   The department published the final version of the Regulation Impact Statement in November 2015. The Office of Best Practice Regulation assessed it and advised the department that it was compliant with the Australian Government's Regulation Impact Statement requirements but was not best practice. The Office of Best Practice Regulation stated: 'Given the significance of the

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27   Department of Education, *Regulation Impact Statement - Jobs for Families Child Care Package*, November 2015, pp. 43–44.

28   Department of Education, *Regulation Impact Statement - Jobs for Families Child Care Package*, November 2015, p. 48.

29   Department of Education, *Regulation Impact Statement - Jobs for Families Child Care Package*, November 2015, pp. 48–49.

reforms being undertaken and the likely impacts on the early childhood education and care market, a more in-depth analysis of the expected net benefits would have resulted in the Regulation Impact Statement being assessed as best practice'.

2.24   ANAO analysis found that the Regulation Impact Statement was compliant with the requirements in *The Australian Government Guide to Regulation* (March 2014). However, it could have: been clearer on the strategy that underpinned the consultation process, particularly how the consultation process was designed to allow for efficient and meaningful consultation; and provided a summary of the major issues that were raised by stakeholders.

2.25   The department established a series of councils and reference groups for consultation on matters affecting the child care and early learning sector and design of the Package. The Ministerial Advisory Council for Child Care and Early Learning was established in 2014. The Council met three times a year from July 2014 until it was dissolved on 30 June 2017. The department also convened the Stakeholder Reference Group for Child Care and Early Learning in 2014, which was established to provide additional perspectives on the practical implications of child care and early learning policies. It met eight times between August 2014 and January 2016. Its membership included child care providers from across different service types.

2.26   In 2017 the department convened an Implementation and Transition Reference Group to seek feedback on key elements of the Package design and transition process. It included 12 representatives from child care peak bodies and large child care service providers and met 17 times between July 2017 and March 2019. Members discussed a variety of issues, including the impacts that certain requirements, processes and timelines would have on key stakeholders. Case Study 1 provides an example of the department considering the impacts on stakeholders and making a design change as a result.

Case study 1.   Impact of attendance reporting requirement on stakeholders

The *Child Care Subsidy Secretary's Rules 2017* included a new requirement that child care providers include daily and weekly totals of the number of hours of the child's physical attendance during the statement period, including daily start and end times of the child's physical attendance, in statements to parents.[a] This information was to be entered manually through the government's Child Care Provider Entry Point[b] or via a third-party automated attendance software solution. This requirement was to commence with the Package rollout on 2 July 2018.

In July 2017, at the inaugural meeting of the Implementation and Transition Reference Group, members (child care providers and peak bodies) expressed concern that third-party software solutions that could interact with the department's new IT system had not yet been delivered and that, without software solutions, the collection of actual attendance times would be a significant administrative burden. Members encouraged the department to consider delaying this reporting requirement by 6–12 months.

The department received further stakeholder feedback through Gateway Review interviews and other consultation sessions that the 2 July 2018 deadline posed significant challenges: for providers in implementing actual attendance recording at the same time as meeting other new legislative and transition requirements; and for third-party software vendors in creating or updating automated attendance software solutions.

> The department considered the impact this requirement would have on stakeholders, as well as the risks to successful implementation of the child care reforms, and proposed a change to the Secretary's Rules to delay the attendance reporting requirement by six months. The Minister approved the change in March 2018, and this reporting requirement came into effect on 14 January 2019 — six months after the commencement of the Child Care Package.

Note a: Previously, providers had to report the number of days children attended care during a statement period, but not the number of hours or start and end times.

Note b: The department's Child Care Subsidy System includes a Provider Entry Point, which provides basic functionality to submit legislatively required information for the payment of child care subsidies. This includes the ability to report actual attendance times manually.

Source: ANAO analysis of Department of Education documentation.

2.27   Stakeholder consultation is examined further in the following section on engagement.

Was an engagement strategy developed and implemented?

> An effective engagement strategy was developed and implemented for the Package.

2.28   The department developed a stakeholder engagement and communication strategic plan for the Package. The plan was endorsed in April 2016, updated in March 2017 and was in place until after the introduction of the Package in 2018. It was designed to guide communication and stakeholder engagement activities and work in parallel with the 'National Child Care Plan' communications campaign (discussed further in Chapter 3). The plan aligned with the objectives of the Package and outlined the four core objectives on which messages would focus:

- Awareness: messages will inform audiences what will change, why, the benefit and when.
- Prepare: messages will help audiences prepare for transition. The emphasis is on what is changing, what you need to do to prepare.
- Act: messaging will focus on what is changing, the key dates and what audiences need to do.
- Ongoing communication: when the changes are implemented, ongoing promotion will transition to the usual departmental communication activity.

2.29   The plan identified key stakeholders and outlined engagement activities tailored to each stakeholder. A Master Plan was attached to the plan that outlined proposed engagement activities and tracked completed activities. Stakeholder engagement activities included letters and emails to stakeholders, media releases, web content, fact sheets, social media posts and the Child Care Helpdesk.

2.30   A major component of engagement activities were webcasts, roadshows, information sessions and workshops, which aimed to raise awareness and answer questions about the new program for families and providers, as outlined in Table 2.3.

Table 2.3:   Summary of engagement activities, April 2016 to December 2018

Stakeholder group	Engagement activity	No. of activities
Families	Face-to-face pilot sessions in Boxhill and Townsville (October 2017)	2
	Family webcasts (October 2017–May 2018)	7
Providers and peak bodies	Workshops on the Minister's and Secretary's Rules (April–December 2016)	18
	Face-to-face sessions on the Child Care Package in 12 cities[a] (May–June 2017 and March 2018)	41
	Face-to-face sessions on the Child Care Community Fund in nine cities[b] (May–June 2017)	10
	Webcasts and webinars on the Child Care Package, Additional Child Care Subsidy and the Child Care Community Fund (May–June 2017)	10
	Implementation and Transition Reference Group meetings (July 2017–December 2018)[c]	17
Software Vendors	Workshops (June–November 2017)	17
	Software Vendor Reference Group meeting (May 2017)	1

Note a: Adelaide, Alice Springs, Brisbane, Broome, Cairns, Canberra, Darwin, Hobart, Melbourne, Perth, Sydney and Wodonga.

Note b: Adelaide, Brisbane, Broome, Cairns, Darwin, Melbourne, Perth, Sydney and Wodonga.

Note c: The Implementation and Transition Reference Group is discussed in paragraph 2.26. It met 17 times between July 2017 and March 2019.

Source: ANAO analysis of Department of Education documentation.

2.31   Following the information sessions, the department summarised feedback from families and providers. Evaluation reports from the pilot information session for families were used to determine the timing and format of future sessions, which included holding webcasts as opposed to face-to-face sessions. Evaluations from the nine family sessions indicated that 84 per cent of families agreed or strongly agreed that the sessions were useful, and 79 per cent agreed or strongly agreed that the information was easy to understand.[30]

2.32   Evaluation reports from the provider sessions were used to identify key themes, concerns and misconceptions. The feedback was also used to: guide the upcoming communication and engagement activities; develop a frequently asked questions page on the department's website; develop information sessions on targeted topics; and refine the website and the *Child Care Provider Handbook*.[31] Evaluations from provider sessions indicated that 75 per cent of providers agreed or strongly agreed that the sessions were informative and helped them to understand changes to the child care system, but 14 per cent reported that they did not feel confident that they knew what they had to do to transition to the Package.

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30   The nine family sessions are noted in Table 2.3 and included two face-to-face pilot sessions held in October 2017 and seven family webcasts held between October 2017 and May 2018.

31   The *Child Care Provider Handbook* is a departmental guide explaining the requirements and responsibilities of providers under the Package.

2.33   According to the department's first evaluation report, as at May 2018, 86 per cent of families using paid child care reported that they were aware that the child care system was changing, but a significant proportion reported that they did not find it easy to access or understand child care fee assistance information. Just over one-third agreed or strongly agreed that they found it easy to get government information about child care fee assistance, one-quarter neither agreed nor disagreed and just over one-third disagreed or strongly disagreed.[32]

2.34   In February 2019 a new communications strategy replaced the stakeholder engagement and communication strategic plan. The new strategy provides an overview of business-as-usual communication activities with key stakeholders. The communications strategy outlines the department's high-level communication approach, target audiences, and internal and external stakeholders. It uses specific measures to evaluate success of the strategy, such as seeing a reduction in enquiries to the Child Care Subsidy Helpdesk and an increase in page visits to the department's website.

2.35   According to the new communications strategy, a brief is to be delivered to the Senior Executive Meeting[33] every two months to evaluate the communication strategy and ensure the senior executive are aware of upcoming activities. The first brief on the communications strategy was presented to the Senior Executive Meeting at its 31 May 2019 meeting. The brief discussed recent communications activities and referred to the forward plan for the next four weeks of communications activities. The brief provided an update against some of the measures of success outlined in the communications strategy, such as that the daily average of visits to the department's factsheet web page had increased from 111 visits in April 2019 to 175 visits in May 2019.

2.36   Ongoing communication activities include emails to key stakeholders, social media posts, updates to the frequently asked questions web pages, fact sheets, and the *Child Care Provider Handbook*. Additional webcasts were held to address specific areas of the program, such as a session on the Additional Child Care Subsidy in March 2019. The department continues to offer support to providers through the Child Care Helpdesk[34], while Services Australia offers support for families in relation to the Child Care Subsidy and Additional Child Care Subsidy.

Was appropriate advice provided to the Australian Government on design and implementation?

Appropriate advice was provided to the Australian Government on the design and implementation of the Child Care Package.

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32   Australian Institute of Family Studies, *Child Care Package Evaluation: Early Monitoring Report—Report on baseline, early monitoring and emerging issues*, July 2019, p. 77. The department's evaluation framework for the Package is discussed in Chapter 3.

33   The Senior Executive Meeting is discussed further at paragraph 3.34.

34   The Child Care Helpdesk is discussed further at paragraphs 3.9–3.11.

2.37   The ANAO analysed 23 ministerial submissions and briefs for key decision points from July 2017 to April 2019. The department provided advice to Ministers on key matters relating to the design of the Child Care Package and the implementation of the Child Care Reform Program, including:

- policy design elements, such as the activity test, recognised activities, exemptions, child care attendance reporting and withholding provisions;

- legislative amendments, including to the Child Care Subsidy Minister's Rules;

- key risks to the implementation of the Child Care Reform Program;

- status updates on the implementation of key elements of the Child Care Reform Program;

- status updates, key risks, delivery timeframes and results of Gateway reviews for the new Child Care Integrated IT system;

- updates on the progress of families and child care providers as they transitioned to the new Child Care Subsidy arrangements;

- outcomes of the Community Child Care Fund grant opportunities; and

- post-implementation data on the new child care system.

2.38   The briefs provided clear statements of purpose, outlined options, included the rationale for the preferred option, discussed risks and required resources, and made clear recommendations.

2.39   In addition to regular ministerial submissions and briefs, the department presented updates on the Child Care Reform Program to the Minister on 9 August 2017, 7 September 2017 and 26 March 2018. These face-to-face presentations provided the Minister with information on the program status, risks and issues, governance and change management arrangements, gateway reviews, assurance reviews, the transition and updates on the readiness of key stakeholders to transition to the new subsidy arrangements.

3. Governance arrangements

Areas examined

This chapter examines whether sound arrangements have been established and implemented to support the effective transition to and management of the Child Care Package (the Package).

Conclusion

Sound arrangements were implemented to support the transition to the Package. Arrangements for the management of the Package are being implemented, with frameworks established for the Package's risk management, compliance, performance management and evaluation activities. However, oversight arrangements for the management of the Package, were not established in a timely manner and are still under development.

Area for improvement

The ANAO made one suggestion aimed at ensuring that effective oversight arrangements are established in a timely manner and that service and quality control expectations are agreed and maintained for outsourced service delivery to provide assurance that policy objectives are being met.

3.1   In order to assess whether sound arrangements had been established and implemented to support the transition to and management of the Package, the ANAO examined the: arrangements to assist key stakeholders to transition to the Package in a timely manner; oversight arrangements; and frameworks for risk management, compliance, performance management and evaluation. These elements are discussed in the following sections.

Were effective arrangements established and implemented to assist key stakeholders to transition to the Package in a timely manner?

Effective arrangements were established and implemented to assist key stakeholders, including families and child care providers, to transition to the new package arrangements in a timely manner, with 88.1 per cent of the families (1,024,359 of 1,162,908) of the families who had been invited to transition and 99.9 per cent of child care providers transitioning by the 2 July 2018 deadline.

Child Care Reform Program

3.2   In 2015 the department established the Child Care Reform Program to deliver the Package and support the transition to the new child care arrangements. This program, which ran until September 2018, included a range of projects that were conducted in the lead-up to the transition, including Internal and external change management projects. In 2017 the department developed the Child Care Reform Program Change Management Strategy, which outlined how the program would manage and monitor the change management activities required to successfully establish and transition to the Package. The strategy included a series of primary and secondary objectives, as provided at Table 3.1.

Table 3.1:   Change management strategy objectives

Primary objectives	Secondary objectives
• Families, child care providers and software vendors are ready for full implementation of the Package on 2 July 2018 • The department, Services Australia and Department of Social Services have the people, resources, processes and system infrastructure necessary to make the transition a success and to help stakeholders who experience difficulty during transition • Comprehensive information about child care policy settings and requirements are clearly communicated through a range of channels, so that the Package can be easily understood by all participants	• Adverse publicity is minimised through pro-active identification and management of those risks which, if realised, could trigger negative headlines. • The 'transition pathway' for each cohort of stakeholders is identified and understood, so that the particular challenges faced by each cohort can be treated. • The external dependencies the transition faces are identified and understood. • Monitoring arrangements to track progress of dependencies and stakeholder readiness are defined and established. • The change management activities and support models needed to make the transition a success are identified and established. • A hierarchy of contingency plans and capabilities is established and agreed well in advance of transition. • Families and services are encouraged to maximise the benefits of the Package for themselves.

Source: ANAO analysis of Department of Education documentation.

3.3   The department developed a comprehensive Child Care Reform Program Change Management Plan to define how the change management strategy objectives would be realised. The plan was endorsed in February 2018 and outlined the change management approach and activities that would be undertaken to support the transition to the Package. The change management activities were aimed at, among other things, ensuring that: families, providers and software vendors were confident to complete required transition actions in a timely manner; and the disruption to families and the sector was minimised. Key change management milestones were defined in a program milestone schedule, which was maintained by the Program Management Office.[35] The program milestone schedule outlined milestones for each Child Care Reform Program project and included dependencies, milestone dates and status information and commentary. The Program Management Office provided a monthly update on the program milestone schedule to the Delivery Steering Committee.

3.4   The department undertook a range of activities to support change management and the transition of stakeholders to the new arrangements, including a communications campaign, direct communications, factsheets, task cards, emails, roadshows, workshops and direct case management, as discussed in the following sections.

'National Child Care Plan' campaign

3.5   To raise awareness about the Package and transition requirements, the department ran a government advertising campaign known as the 'National Child Care Plan' campaign. The campaign ran in two phases: the first phase from 12 November to 23 December 2017 focused on raising awareness about the Package; and the second phase from 8 April to 30 June 2018 focused on

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35   The Program Management Office is discussed further at paragraphs 3.44–3.46.

encouraging families and service providers to make the transition to the new arrangements. The department evaluated the campaign and reported positive results, including that the targeted audiences' awareness of the change had increased from 25 per cent to 58 per cent. The campaign is summarised in Table 3.2 and discussed in greater detail in Auditor-General Report No. 7 2019–20 *Government Advertising: June 2015 to April 2019.*

Table 3.2: Summary of the National Child Care Plan campaign

Objectives	Raise awareness of the new Child Care Package and how the reforms will affect parents and service providers; inform parents and parents-to-be of key dates and eligibility criteria; and encourage target audiences to seek further information.
Timing	Phase 1 Awareness raising: 12 November to 23 December 2017 Phase 2 Transition: 8 April to 30 June 2018
Target audience	Parents with children aged 0 to 12 years who use, or are planning to use, formal or informal child care services; people who are considering starting a family in the next two years; and child care service providers.
Media channels	The campaign employed television, radio, search engine marketing, digital display and mobile, social media advertising, Out-of-Home (for example Billboards) and cinema, as well as channels to reach Aboriginal and Torres Strait Islanders and culturally and linguistically diverse Australians.
Total campaign expenditure	$17.5 million (including GST)

Source: ANAO analysis of Department of Education documentation.

Transition arrangements for child care providers

3.6   In addition to the roadshows, webcasts and other engagement activities discussed in paragraphs 2.28–2.36, the department supported the transition of providers by sending 'call to action' and informative emails, publishing a Child Care Provider Handbook, maintaining a Child Care Helpdesk, providing direct support, conducting a provider registration 'pilot' and publishing transition fact sheets and other information on the Education website.

3.7   The first provider 'call to action' email was sent in July 2017, initially prompting providers to update their registration details. Later emails were sent at regular intervals and directed providers to take specific actions, such as registering their details or linking them to resources such as fact sheets or video presentations. In March 2018 a checklist was sent to providers outlining each of the steps providers needed to take to complete the transition process.

3.8   Following early releases of the draft for consultation, the Child Care Provider Handbook was published in June 2018. The handbook served as an in-depth walk through of the Package and how it applied to providers. Transition fact sheets were published on the department's website, clarifying elements of the Package, such as how to define provider personnel versus service personnel. Seventy per cent of providers responding to a May–June 2018 survey reported that they had accessed the department's website for information about the Package, with 58 per cent of respondents saying they found it helpful and 12 per cent reporting that it was not helpful.

Departmental Child Care Helpdesk

3.9   The department augmented the existing Child Care Service Helpdesk for providers. To clarify the responsibilities of the helpdesk for providers and software vendors, a helpdesk strategy was finalised between the department and Services Australia on 28 June 2018. The department's helpdesk could assist providers with queries on the handbook; debts and repayments; child attendance data; and child care personnel verification. The strategy also outlined the limited support the helpdesk could offer to families, with families considered the responsibility of Services Australia.

3.10   The helpdesk escalates calls from families that relate to fraud, non-compliance or inadequate care facilities to the relevant internal department policy area or to the state and territory authorities responsible for regulating child care facilities. Within the helpdesk strategy, the 'Contact One' protocol was established, which outlined how to determine the most appropriate agency to resolve an issue and processes that aimed to reduce situations where callers are passed between entities unnecessarily.

3.11   During the week before the commencement of the Package (25–29 June 2018), the helpdesk received 3092 calls about the subsidy. Between September and December 2018, the helpdesk received 35,879 calls. In response to a May–June 2018 survey of providers, 66 per cent of respondents reported that they had accessed the department's helpdesk, with 52 per cent of respondents saying they found it helpful and 14 per cent reporting that it was not helpful.

3.12   According to the department's 2017–18 Annual Report, 6040 (of 6053[36]) child care providers transitioned to the new arrangements by the 2 July 2018 deadline.

Transition arrangements for families

3.13   To transition to the new child care system, families needed to: register for a MyGov account (if they did not already have one); complete an online assessment by providing information such as their 2018–19 family income estimate and activity details; and confirm their child's enrolment.

3.14   As previously discussed, a targeted communications campaign was directed towards families to increase awareness of the Package and to encourage families to make the transition to the new system by the 2 July 2018 deadline. Seven webcasts were held between October 2017 and May 2018. These sessions were designed to raise awareness of the incoming changes to the child care system and explain to families what they would need to do for the transition. Initial 'call to action' letters encouraging families to register for the child care subsidy were sent out to specific cohorts of families in January 2018, with the main 'call to action' campaign for families commencing in April 2018. Factsheets and task cards were made available on the department's website to explain the steps families needed to take to complete their transition.

3.15   Of the 1,162,908 families that were invited to transition[37], 1,024,359 (88.1 per cent) transitioned by the 2 July 2018 deadline.

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36   The 6053 child care providers represented 12,745 child care services.

37   The families who were invited to transition were those already receiving the Child Care Benefit. Some of these families would have stopped using child care by 2 July 2018 due to a change in circumstance and would not have needed to complete the transition process.

Transition arrangements for software vendors

3.16   In its 2017 Child Care Reform Program Change Management Strategy, the department identified that successful implementation of the Package was highly dependent on child care providers being able to update their practice management software ahead of transition. For this to occur, third-party software vendors would need to update the practice management software to meet subsidy requirements by the time providers needed to start interacting with the new Child Care IT system. Without these updates, it would be difficult for providers to provide Services Australia with the data required to calculate and pay subsidy entitlements.

3.17   The department commenced consultations with software vendors in May 2017 to brief them about the new IT system and what would be required to update their software. The department and Services Australia committed to ongoing engagement with the software vendors and a process of co-design regarding the specifications the vendors would need to meet to be registered into the future. Between June and November 2017, the program held 17 software vendor working sessions. These consultations included co-design workshops and technical specification walkthroughs.

3.18   In October 2017 a centralised software account management hub was established to coordinate software vendor activities and assist with the transition of vendors to the new system. Each software vendor was assigned a dedicated account manager as a first point of contact. Account managers followed the progress of vendors, assessing their readiness for transition, developing a transition schedule for each vendor and putting contingency plans in place. In May 2018 an assurance review of software vendor readiness was conducted, which found that software vendors felt engagement had improved following the establishment of software vendor account managers. The department also regularly engaged with software vendors through face-to-face sessions and emails.

3.19   As at 6 June 2018, 24 software vendors were registered to supply software solutions for the old child care IT system. Of these, eight decided not to transition to the new IT system or were being acquired by other software providers. Of the 16 software vendors that elected to transition to the new system, 15 software vendors (representing 93 per cent of the market) transitioned by the 2 July 2018 deadline.[38] By November 2018 the department had published a list of 18 software products that were registered to interface with the Child Care Subsidy System.

Monitoring and controlling transition arrangements

3.20   A multi-entity Child Care Reform Program Command Centre was established from 25 June to 25 July 2018, as a single escalation point for program issues and questions. To facilitate faster issue resolution and clearer communications, command centre team members (from the department, Services Australia and DSS) were physically co-located during these four weeks, and issue resolution meetings were held twice each day.

3.21   The department created a high-level Contingency Action Plan that outlined three major threat scenarios and established contingency actions to ensure the continuity of its key services if

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38   The sixteenth software vendor represented a small enough market share that its clients could use the Provider Entry Point portal as a contingency. This final software vendor transitioned late on 1 July 2019.

one of these major, unexpected or disruptive incidents were to occur during transition.[39] None of the three scenarios were realised during the transition.

3.22   The department created a Go Live Checklist, which outlined readiness criteria and the associated actions required to be ready for the commencement of the Package on 2 July 2018. Each readiness criterion was assigned an accountable officer and a nominated action owner. Progress against this checklist was assessed by the Senior Responsible Officer (SRO) and key program leads in the two weeks leading up to the rollout, initially on a daily basis, and then twice daily as the commencement date approached.

Gateway reviews

3.23   Three gateway reviews were conducted to assess the Child Care IT system project status and readiness at key delivery points from August 2015 to February 2018, with the final review (Gate 5: Benefits Realisation) scheduled for late 2019. Table 3.3 outlines the Delivery Confidence Assessments for each gateway review.

Table 3.3:   Gateway Review Delivery Confidence Assessments

Review gate	Date provided	Delivery Confidence Assessment[a]	No. of recommendations
Gate 0/1 Business Need / Business Case Review	21 August 2015	**Amber/Red:** Successful delivery of the project to time, cost and quality standards and benefits realisation is in doubt with major issues apparent in a few key areas. Urgent action is needed to address these.	12
Gate 2/3 Delivery Strategy / Investment Decision	19 May 2017	**Amber:** Successful delivery of the program/project to time, cost, quality standards and benefits realisation appears feasible, but significant issues already exist requiring management attention. These need to be addressed promptly.	17
Gate 4 Readiness for Service Review	16 February 2018	**Green/Amber:** Successful delivery of the project to time, cost and quality, standards and benefits realisation appears probable, however, constant attention will be needed to ensure risks do not become major issues threatening delivery.	8

Note a: The Department of Finance definition of a Delivery Confidence Assessment: the collective view of the Assurance Review Team on the likelihood of overall success for the project. It uses a five-tier rating system (Red, Amber/Red, Amber, Green/Amber and Green).

Source: ANAO analysis of Department of Education documentation.

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39   The three scenarios were: inability of the Child Care Subsidy system to make payments; inability of the Child Care Subsidy system to calculate payments or process attendance correctly; and inability of the child care providers third party software to successfully submit attendance data to the Child Care Subsidy system.

3.24   The Gateway 0/1 review report (August 2015) included 12 recommendations, of which two were rated as 'critical' and four were rated as 'essential'. The Department of Social Services (DSS), the responsible entity at the time, agreed to all 12 recommendations. The Gateway 2/3 review report (May 2017) made 17 recommendations including two critical recommendations to be actioned by 30 June 2017 and nine essential recommendations to be actioned between June and December 2017. The department, DSS and Services Australia accepted all recommendations and created a joint plan of action with timelines for each. The SRO was responsible for the overall gateway review process, and updates on the status of the recommendations were provided to the Minister in July and August 2017 and to the Delivery Steering Committee in November and December 2017.[40]

3.25   The Gateway 4 review report (February 2018) made eight recommendations, including four rated as 'critical' and two rated as 'essential', which were all accepted. In response to one of the critical recommendations, which related to the transition of third-party software vendors, the department added a new 'extreme' risk to the Child Care Reform Program risk register and organised meetings with all software vendors to discuss the barriers to successful delivery of their software solutions.

3.26   The September 2018 Child Care Reform Program closure report determined that all recommendations from the three gateway review reports had been completed.

Effectiveness of transition arrangements

3.27   The department assessed the effectiveness of the transition change management and stakeholder engagement activities by regularly measuring the transition readiness of families and providers. Before the commencement of the transition, the department had estimated the anticipated transition trajectory for each stakeholder group and established contingency trigger points where the department would undertake certain activities to encourage stakeholders to transition, if transition numbers were below the department's targets.

3.28   Starting from the initial call to action, through to the Package rollout on 2 July 2018, actual transition numbers, and a comparison against the anticipated trajectory, were reported to the SRO and other key stakeholders, such as the Program Management Office, on a daily basis. These daily transition dashboards for providers and families, as illustrated at Figure 3.1, were used to assess: progress towards transition readiness; effectiveness of the ongoing communications and stakeholder engagement; and need to trigger contingency actions.

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40   The Delivery Steering Committee is discussed below (see paragraphs 3.42–3.43).

Figure 3.1: **Child Care Reform Program daily transition dashboard, 25 June 2018**
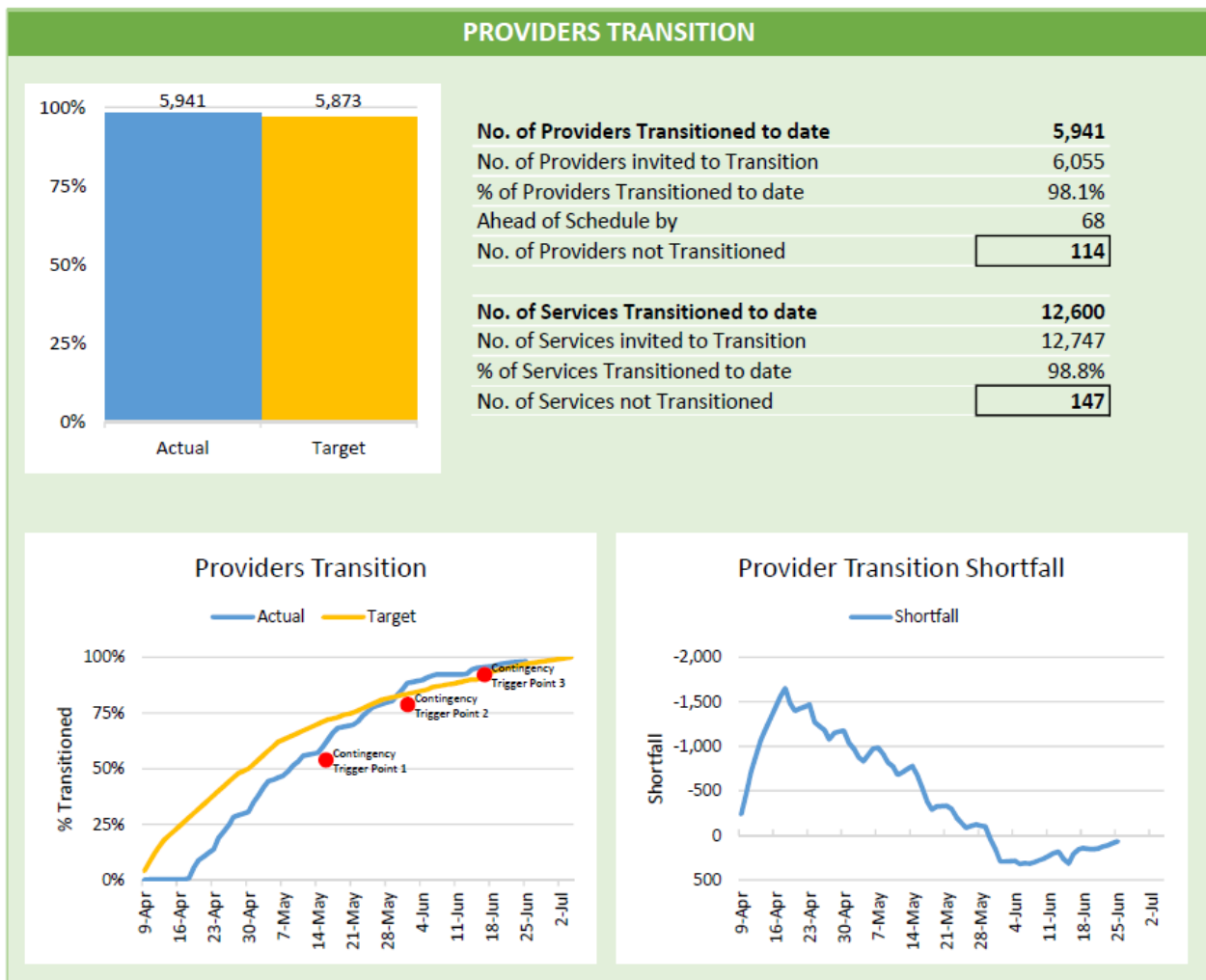
Source: Department of Education.

3.29   In the May–June 2018 survey, 66 per cent of providers reported that they agreed or strongly agreed that they were prepared for the change. Of those that reported they had used government supports for the transition, such as the department's website and helpdesk, 80 per cent stated that these supports were helpful.

3.30   According to the department's first evaluation report (July 2019), as at May 2018, just over one-third of families agreed or strongly agreed that they found it easy to get government information about child care fee assistance, while just over one-third disagreed or strongly disagreed. In a post-implementation survey of families in July 2018, 71 per cent reported that they had found the process of applying for the new child care fee assistance quite easy or very easy. A further survey in November 2018 found that 67 per cent of families agreed or strongly agreed with the statement 'the transition of the new subsidy was fairly seamless for me'.

3.31   As at 10:00 am on 2 July 2018, 88.1 per cent (1,024,359 of 1,162,908) of the families who had been invited to transition[41] and 99.8 per cent of providers (6040 of 6053 providers)[42] had completed the transition process. The department provided a grace period of 12 weeks for families to transition after the deadline.

Have effective oversight arrangements for the ongoing management of the Package been established and implemented?

> Effective oversight arrangements were established and implemented for the transition to the Package. Oversight arrangements for the ongoing management of the Package were not established in a timely manner and are still under development.

Governance arrangements (October 2015 to August 2017)

3.32   In 2015 the department established the Child Care Reform Program to deliver the Package and dedicated governance and oversight arrangements to support the Package's design and rollout. The program's governance structure from October 2015 to August 2017 is depicted at Figure 3.2.

Figure 3.2:   Child Care Reform Program governance structure, until August 2017
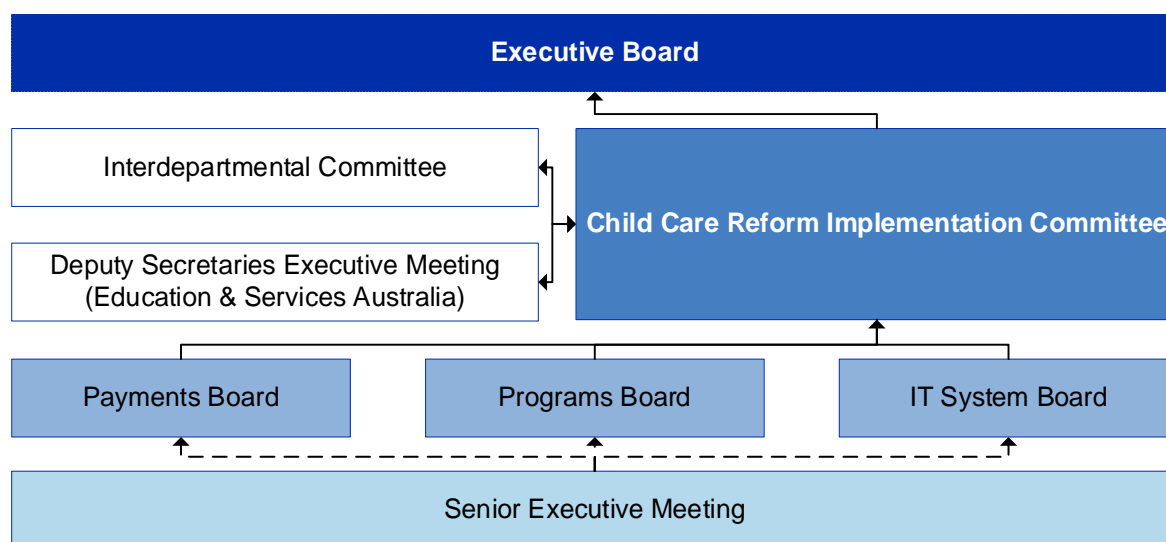
Source: ANAO representation of Department of Education documentation.

Child Care Reform Implementation Committee

3.33   The Child Care Reform Implementation Committee was responsible for decisions on the Package's strategic direction and implementation. The committee delegated operational decisions

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41   The families who were invited to transition were those already receiving the Child Care Benefit. Some of these families would have stopped using child care by 2 July 2018 due to a change in circumstance and would not have needed to complete the transition process.

42   The 6040 providers that transitioned by the deadline represented 12,732 services (of a total of 6053 providers representing 12,732 services). The department defines a provider as 'an individual, business or organisation that delivers child care services' and a service as 'child care that is delivered by a provider at a particular site'. One provider may deliver one or more services, which may include different service types and/or service sites.

to three subordinate boards: the Programs Board; the Payments Board; and the Child Care IT System Board. It was chaired by the department, with members from the department and DSS.

Senior Executive Meeting

3.34   The Senior Executive Meeting existed prior to the establishment of the Child Care Reform Program. It provides strategic focus and guidance to the work of the department's Early Childhood and Child Care Cluster (the cluster) and supports the cluster's Deputy Secretary and senior management. It is chaired by the Deputy Secretary of the cluster and is made up of all senior executive service officers within the cluster. In relation to the Package, the Senior Executive Meeting makes policy decisions and provides guidance.

Assessment of the Child Care Reform Program

3.35   In 2017 the department commissioned an assessment of the Child Care Reform Program. The review found instances of duplicate governance arrangements and that the department and Services Australia had inconsistent views of their respective roles and responsibilities.[43] The June 2017 report recommended the department establish a more integrated approach, appoint a single SRO, 'reset' governance arrangements and agree on a clear scope of work for each department. The resulting reset commenced in September 2017 and was established by early October 2017, as discussed in the next section.

Governance arrangements (September 2017 to September 2018)

3.36   In September 2017 the department appointed a single SRO, re-established its governance structure for the Child Care Reform Program and set up a Program Management Office, as outlined in Figure 3.3. The Program Management Office developed a Governance Plan in late 2017, which received endorsement in May 2018. The plan defined the overall governance framework, reporting framework and governance controls for the program. The plan also provided an overview of the key governance committees that were to provide oversight for the program.

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43   The ICT Two Pass Business Case had stated that the department would take overall responsibility for delivering the integrated Child Care System project.

Figure 3.3: **Child Care Reform Program governance structure, September 2017 to September 2018**
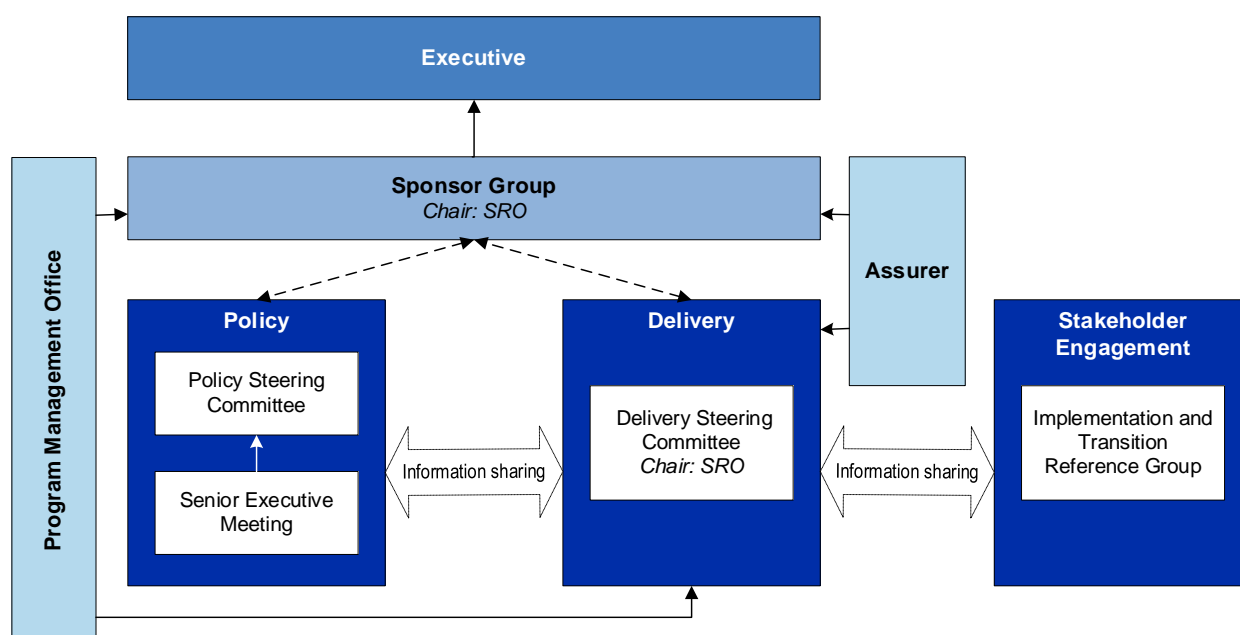
Source: ANAO representation of Department of Education documentation.

Senior Responsible Officer

3.37   The SRO position is at Deputy Secretary level. From September 2017 to 8 July 2018, the SRO was provided by the department. From 9 July 2018, the SRO has been provided by Services Australia. During the transition, the SRO was responsible for ensuring that the Child Care Reform Program adhered to its vision, met program objectives and delivered the desired change. The SRO operated program-wide, with responsibility across all entities involved in the program. The SRO was the chair of the Sponsor Group and the Delivery Steering Committee.

Sponsor Group

3.38   The Sponsor Group was established in October 2017, replacing the Child Care Reform Implementation Committee. Membership included representatives from the department (including the Program Management Office), Services Australia, DSS and a commissioned Assurer. The Sponsor Group's role was to:

- provide high level oversight of the implementation of the new child care package;

- monitor key milestones and evaluate the success of deliverables;

- oversee the effective operation of the Delivery Steering Committee and the Policy Steering Committee;

- support the SRO to achieve timely and effective delivery;

- provide strategic advice and organisational context for implementation of the new child care package;

- ensure sufficient resourcing to facilitate timely and effective delivery; and

- resolve issues escalated by the Delivery Steering Committee or Policy Steering Committee.

3.39   The Sponsor Group met 13 times between 5 October 2017 and 5 July 2018 under the department-appointed SRO and three times under the Services Australia-appointed SRO between 25 July 2018 and 27 September 2018.

Policy Steering Committee

3.40   The Policy Steering Committee was established in October 2017. Members included representatives from the department, Services Australia, DSS and the Department of the Prime Minister and Cabinet. The role of the committee was to:

- endorse matters of policy relating to the implementation of the new child care package, including operational policy and program management;
- consider any delivery impacts when endorsing policy matters;
- identify key risks and issues impacting the policy intent of the child care reforms; and
- advise on policy matters relating to child care reforms, including whether policy and legislative intent will be/has been met through implementation deliverables.

3.41   The Committee met 12 times between October 2017 and August 2018, holding its last meeting on 1 August 2018.

Delivery Steering Committee

3.42   The Delivery Steering Committee was established in September 2017. Members include representatives from the department (including the Program Management Office), Services Australia, DSS, the Department of the Prime Minister and Cabinet, the Digital Transformation Agency and the Assurer. The role of the Committee was to:

- decide matters related to those elements of the Package being jointly delivered and implemented by the department, Services Australia and DSS;
- oversight and manage the delivery schedule ;
- provide advice on delivery impacts to the Policy Steering Committee on matters of policy under the new child care package;
- identify and resolve key risks and issues impacting the delivery and implementation of child care reforms and direct appropriate action to mitigate those risks;
- oversight and manage the new Child Care IT System build; and
- oversight and manage the Change Management Plan.

3.43   The Committee met 11 times between September 2017 and July 2018 under the department-appointed SRO and once under the Services Australia-appointed SRO. Its final meeting was held on 2 August 2018.

Program Management Office

3.44   In September 2017 the department engaged KPMG to manage the Child Care Reform Program Management Office. The Program Management Office was responsible for the consolidation of project information, administering risk and issues registers and reporting on program finance, procurement, milestones, resourcing and scheduling. The Program Management Office supported the SRO and Program Leads and led Program Partner Integration meetings. These meetings were held weekly until 25 June 2018 for cross-entity management of program progress,

joint monitoring and resolution of program risks and issues and program management communications.

3.45 The Program Management Office also supported program issues resolution meetings, which were chaired by the SRO and held weekly, to resolve outstanding design and implementation decisions within the Program. The Program Management Office tabled an issues register at each meeting and recorded and communicated resolutions. Issues were escalated from this meeting to the Delivery Steering Committee when the:

- rating of the program issue increased;
- program issue could not be managed because of an external factor;
- resolution resulted in a change that required Delivery Steering Committee approval;
- program issue required intervention by senior staff; or
- program issue mitigation was not effective.

3.46 The Program Management Office closed on 31 August 2018 and its Program Closure Report was endorsed by the Sponsor Group and SRO on 27 September 2018.

Assurer

3.47 In August 2017 the department commissioned PwC Australia to provide assurance services for the program, operating across all three departments, and also engaging with the Digital Transformation Agency as needed. A program assurance planning workshop was held on 24 August 2017 with senior stakeholders from the department, Services Australia, DSS and the Digital Transformation Agency. The workshop established a forward plan of activities and identified the deliverables of greatest value to the Program. Between August 2017 and July 2018, the Assurer conducted a range of assurance work, such as reviews on: program health; data migration and synchronisation; systems controls; user acceptance testing; and stakeholder transition readiness.

Cross-entity relationships

3.48 The department is the lead policy entity for the Child Care Package and has overall responsibility for delivering the reforms required to implement the Package. Services Australia is responsible for the development of the Child Care IT System, with support from the department and DSS. Services Australia is also responsible for managing child care subsidy payments. Child care grant programs, such as the Community Child Care Fund, are delivered through the Community Grants Hub, which is the whole-of-government grants management system delivered by DSS.

3.49 A head agreement and service schedule between the department and Services Australia was signed on 29 June 2018. The head agreement established the governance framework to resolve any disputes between the entities and Services Australia's responsibility to deliver ICT services to the department. The 2018 services schedule outlined joint responsibilities for the department and Services Australia, such as: establishing an operational committee to assist the parties to monitor their performance and meet their obligations under the Services Schedule; and providing Service Level Reporting. The services schedule also outlines the roles and responsibilities for each party, as shown at Table 3.4.

Table 3.4: Responsibilities under the 2018 Services Schedule by entity

| Department of Education responsibilities	Services Australia responsibilities
• Program policy • Program implementation • Program performance • Providing Services Australia with indexed rates and thresholds in agreed time frames • Obtaining all *Public Governance, Performance and Accountability Act 2013* (PGPA Act) approvals, authorisations and drawing rights, and any other financial delegations and requirements, that the department is required to obtain in order for Services Australia to perform the Services • Meeting all relevant deliverables and key performance indicators as detailed in the department's Portfolio Budget Statements • Helpdesk support to child care providers, software providers and Services Australia • Communications activities to support child care providers	• Adhering to all laws, regulations and Australian Government policy in its performance of this Service Schedule • Providing IT access for department users as per the agreed user role security matrix • Ensuring payments and any recalculations are delivered in accordance with policy and legislative requirements • Providing technical service levels • Providing technical support for third party software providers • Providing specific data reporting information • Providing the department with the agreed activity reports within agreed timeframes • Providing the department with access to payments information for the Minister for Education • Implementing indexed rates and thresholds in agreed time frames • Helpdesk support to families, child care providers, software vendors and the department

Source: ANAO analysis of Department of Education documentation.

3.50 DSS maintains information relating to the former child care payments system, as well as the portal for Inclusion Support Program payments. A Memorandum of Understanding between the department and DSS was signed on 22 August 2017, with an updated version signed 24 May 2019. The Memorandum of Understanding outlines the delivery of ICT services between the departments.

Governance arrangements (September 2018 onwards)

3.51 The Child Care Reform Program closed in September 2018, and the governance of the Package transitioned to business-as-usual arrangements. The Program Management Office, Sponsor Group, Delivery Steering Committee and Policy Steering Committee were closed by September 2018. Since September 2018 the Senior Executive Meeting has continued to support and guide the work of the department's Early Childhood and Child Care cluster and provide departmental oversight for the Package.

3.52 The elements of the Package are managed by the department's Early Childhood and Child Care cluster. The organisation and line reporting structure for this cluster is presented at Figure 3.4.

Figure 3.4:   Early Childhood and Child Care cluster organisation structure
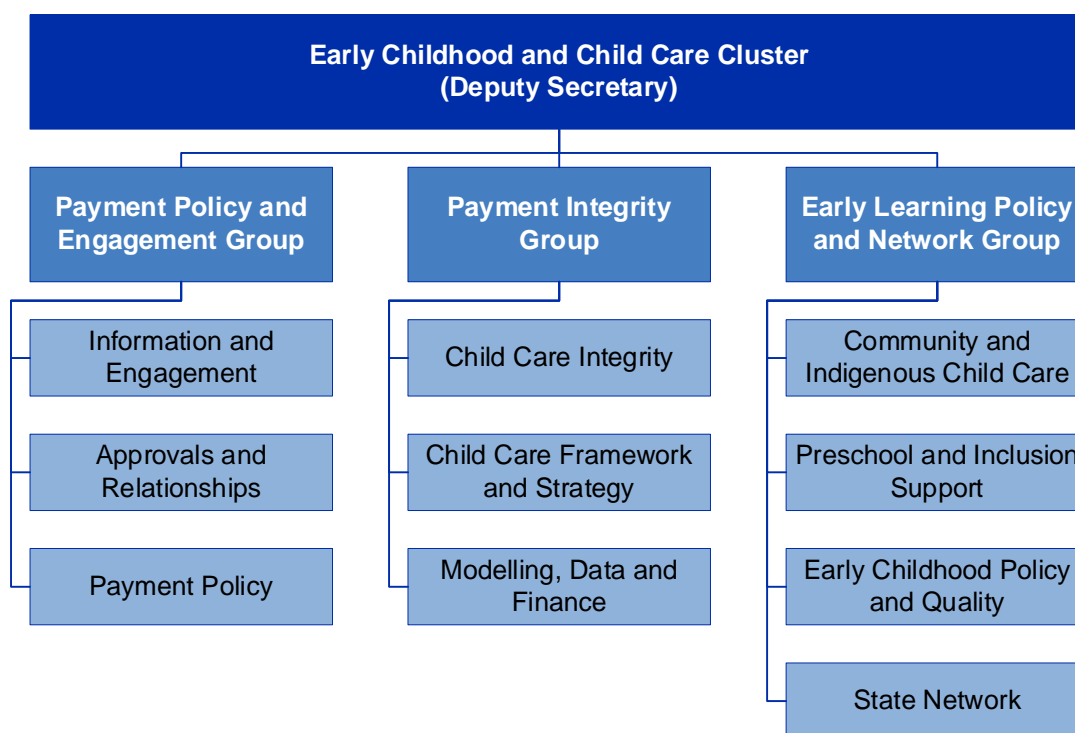
Source: ANAO representation of the Department of Education organisation structure.

3.53   The department has arrangements in place for the line reporting structure of the cluster, such as regular cluster meetings with branch executives and regular meetings with the Secretary and the cluster's Deputy Secretary. In addition, each group in the Early Childhood and Child Care cluster creates an annual group business plan. These plans outline the group's objectives, deliverables, risks, actions to achieve objectives and indicators of success for reporting on performance.

Child Care Subsidy Project Board

3.54   The Child Care Subsidy Project Board, established in November 2018, is specific to the subsidy. The board is accountable to the SRO and is to report to relevant committees, such as the Services Australia Implementation Committee. The purpose of the Project Board is to:

- provide leadership, governance, management and oversight of the subsidy program implementation, including service delivery, expenditure and ICT;
- identify major inter-dependencies;
- consider and make decisions in relation to any implementation issues and be an internal escalation point for issues and risks; and
- escalate issues to the Services Australia Executive Committee.

3.55   The Project Board is to meet at least quarterly and is chaired by Services Australia. Members are representatives from the department, Services Australia and DSS. The Project Board met six times between its first meeting on 29 November 2018 and 10 May 2019.

Provider escalation team

3.56   The department started regular teleconference meetings with Services Australia in August 2018 to discuss the escalation and resolution of ICT incidents for provider-related matters. These meetings were referred to as provider escalation team meetings. It was intended to be a temporary forum, however, due to delays in establishing an ongoing ICT helpdesk support structure, the meetings continued into 2019. The group met 17 times between 3 August 2018 and 11 June 2019, changing its name to the Joint Operational Group in December 2018.

Child Care Subsidy Operational Committee

3.57   Under the services schedule between the department and Services Australia, signed 29 June 2018 for the Child Care Program, a Child Care Subsidy Operational Committee was to be established. This Operational Committee is to report to relevant senior executive officers of each department, meet at least quarterly and be chaired on an alternating basis by the department and Services Australia, with membership from the department and Services Australia. According to draft terms of reference, the role of the Operational Committee is to provide oversight on:

- compliance by each party with their obligations and any relevant legislation;
- reporting under the service schedule and performance against agreed service levels;
- emerging issues or risks with performance, implementation and delivery;
- the quality of communication between the parties;
- changes to program specification, legislation, policy or funding; and
- amendments to the service schedule.

3.58   The Operational Committee did not meet in the first three quarters of 2018–19. The department advised the ANAO that the first Operational Committee meeting was held on 25 June 2019. As the committee was not convened until the Package had been operational for almost 12 months, the first year of Package implementation was undertaken without oversight by the Operational Committee of the program elements referenced above. Further, the department was unable to provide documentation to show how it was assured that Services Australia was delivering against all agreed service levels, prior to the first Operational Committee meeting. The Department did however receive some claims processing data and related reports from Services Australia in the months prior to the Operational Committee's first meeting on 25 June 2019.

3.59   Outsourcing service delivery and the use of IT systems to other entities, such as Services Australia and DSS, does not reduce the department's accountability responsibilities. The department should ensure that effective oversight arrangements are established in a timely manner and that service and quality control expectations are agreed and maintained, and that its business is appropriately prioritised, to help provide assurance that policy objectives are being met.

## Has a risk management framework been established and implemented?

Effective risk management plans, which were consistent with the department's entity-wide risk management policy and framework, have been established and implemented for the Package.

3.60   The department has established an entity-wide risk management policy and framework that aligns with the Commonwealth Risk Management Policy.

Risk management (August 2017 to July 2018)

3.61   The department created the Child Care Reform Program Risk Plan in late 2017, which was endorsed by the Delivery Steering Committee in January 2018. This plan aligned with the department's risk management policy and framework and the Commonwealth Risk Management Policy. The plan's risk management process was adopted from the international risk management standard, ISO 31000:2009, as outlined at Figure 3.5.

Figure 3.5:   Child Care Reform Program risk management process
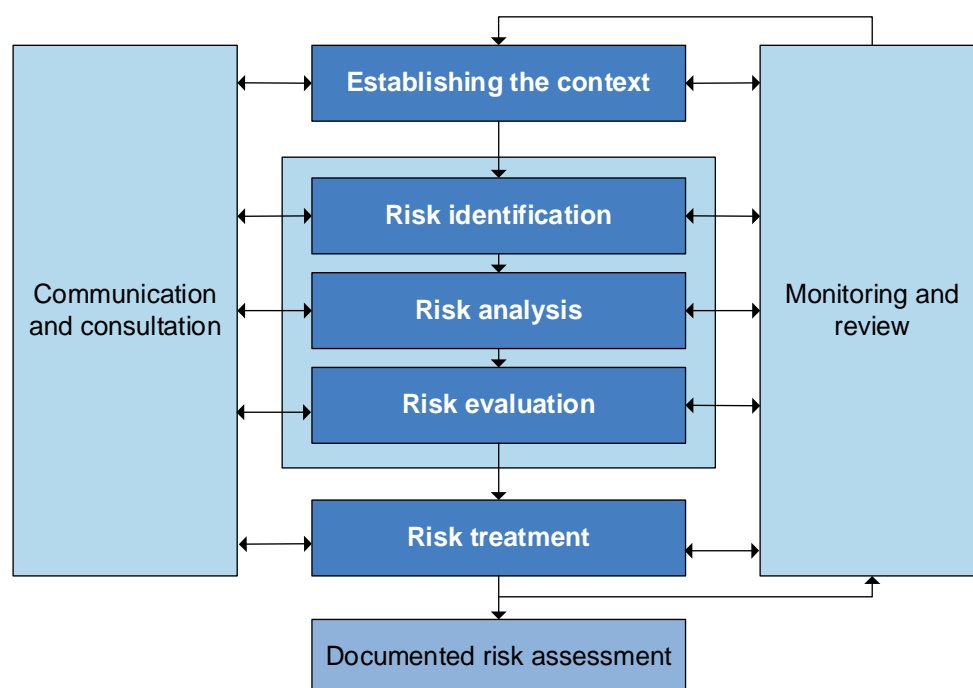
Source: ANAO representation of Department of Education documentation.

Risk identification and assessment

3.62   In 2017 the department identified program risks through executive-level risk workshops. According to the risk management plan, identified risks were to be assessed to determine the likelihood of their occurrence and the impact if they occurred. Risk level was to be determined by combining the estimates of effect (consequence rating) and cause (likelihood rating) and using a risk scoring matrix outlined in the risk management plan.

3.63   The ANAO examined the monthly Child Care Reform Program risk registers the department prepared for 12 months from September 2017 to August 2018. Of the risks reviewed:

- 100 per cent were assessed and assigned a consequence, likelihood and risk rating, as required by the risk management plan;

- 92 per cent were assessed in accordance with the risk management plan's risk matrix;

- 90 per cent were assigned a risk owner;

- 100 per cent were assigned a risk treatment; and

- 98 per cent of risks were assigned a lower risk rating following the application of a risk treatment.

Risk appetite and risk ratings

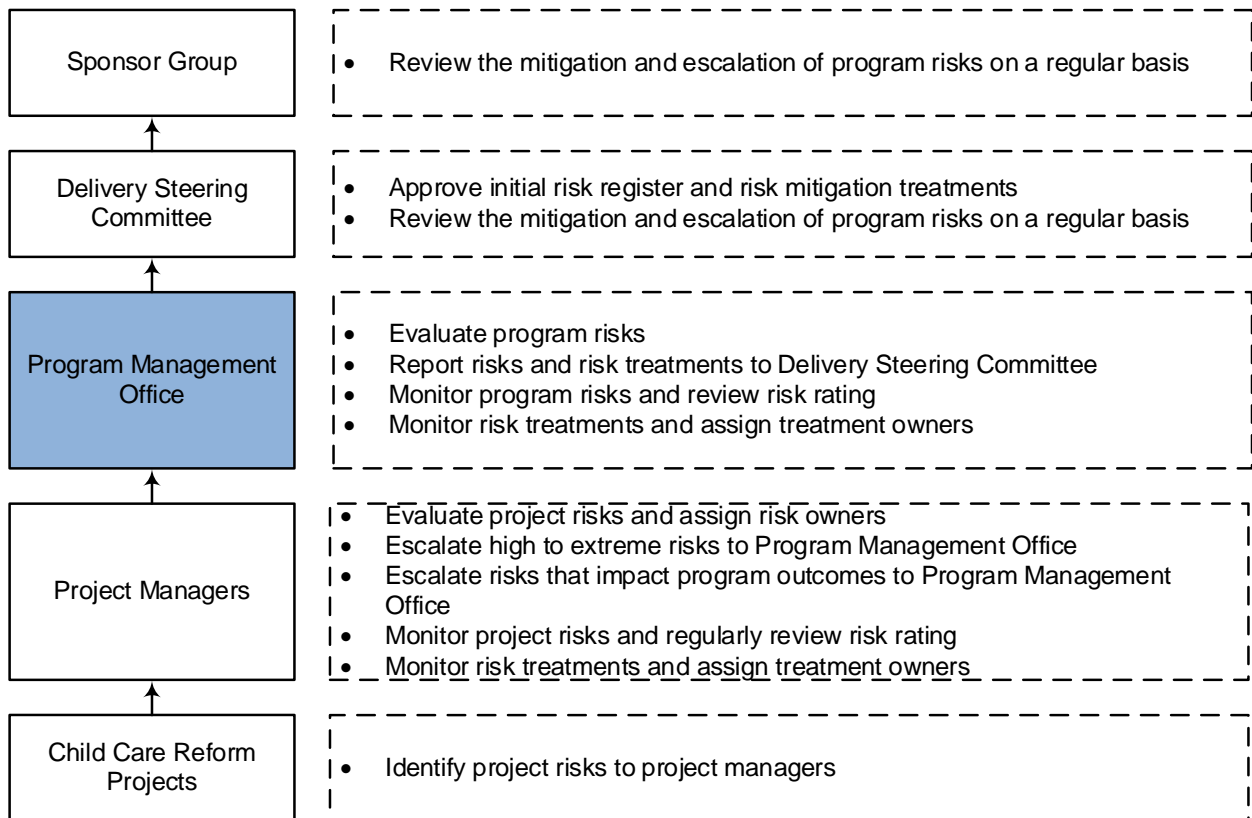3.64   The Child Care Reform Program Risk Plan outlined that the program:

> accepts Low and Medium levels of risk and prefers not to accept High and Extreme risk levels. However, as the program includes a complex cross-agency IT build circumstances may dictate that some High and Extreme risks are accepted by the Senior Executive (following discussion through the escalation process) due to no treatments or additional treatments being available to reduce the risk level further.

3.65   The majority (64 per cent) of the risks reviewed by the ANAO were rated as 'extreme' before mitigation, followed by 'high' (32 per cent), 'medium' (two per cent) and 'low' (two per cent). Of the risks initially rated as 'extreme', 83 per cent were lowered to 'medium' or 'low' and 17 per cent were lowered to 'high' after a risk treatment was applied.

Risk escalation

3.66   The department's Child Care Reform Program Risk Management Plan outlines a risk escalation path and key responsibilities throughout the process, as illustrated in Figure 3.6.

Figure 3.6: Risk escalation path and responsibilities

Source: ANAO representation of Department of Education documentation.

Risk monitoring and reporting

3.67   From September 2017 the Program Management Office maintained and issued monthly Child Care Reform Program risk registers, monitored risk management and reported on program

risks. The first risk register included 19 risks. Eleven risks were added (between November 2017 and July 2018) and 19 risks were removed (between February and July 2018).

3.68   Program risks were a standing agenda item for the Sponsor Group and Delivery Steering Committee. The Program Management Office produced Program Risk Status Reports and Risk Registers and reported on these monthly to the Sponsor Group and Delivery Steering Committee from September 2017 to July 2018. During the transition period, the Program Management Office also reported on program risks weekly to Program Partner Integration meetings.

3.69   Where risks eventuated, these risks were moved to an issues register and managed as an active program issue by the Program Management Office.

Issue management

3.70   The Program Management Office administered a Program Issues Register as a single record of program issues and extreme or high project issues. Key issue management responsibilities undertaken are outlined below.

- Project Managers escalated issues to the Program Management Office and monitored and completed issue treatments.

- The Program Management Office maintained the Program Issues Register, proposed resolutions, reported issues to the Delivery Steering Committee and administered weekly issues resolution meetings.

- The weekly issues resolution meetings were used to resolve program issues requiring immediate attention.[44]

- The Delivery Steering Committee reviewed the Program Issues Register and assisted with issue resolution.

- The Sponsor Group reviewed issues escalated by the Delivery Steering Committee or Policy Steering Committee.

- Once resolution actions were agreed by the Sponsor Group, the Program Management Office reported progress to the Delivery Steering Committee.

3.71   An example of how the department effectively monitored, escalated and managed a risk as an active issue is presented in Case Study 2.

Case study 2.   Risks and issues related to software vendor transition

The Provider Entry Point gives providers access to the new Child Care Subsidy IT system. This portal enables providers to send the information required for calculating subsidy payments, such as session times and fees. Because this information must be manually entered when using the Provider Entry Point directly, many providers choose to use a third-party practice management software product to collect, manage and send this information.

The first risk register, created for the Child Care Reform Program in September 2017, included two risks related to third-party software solutions: third-party software is not ready in time; and

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44   The issues resolution meetings continued to be held weekly until February 2019, when they changed to being held fortnightly. These meetings are chaired by the SRO.

a third-party software vendor with large market share does not transition to the new system. Both risks were rated as 'medium' after mitigation.

Reports on software vendor readiness and the status of the related risks were provided to the Sponsor Group and the Delivery Steering Committee from late 2017. By the end of 2017, dedicated account managers were assigned to vendors to monitor their transition progress and escalate potential issues.

The Department of Finance made a recommendation in its February 2018 Gateway 4 report related to software vendor readiness, which was rated as 'critical'. The department responded by adding a new 'extreme' risk to the risk register that related to the impact on providers and the transition timeline if the delivery of new software were delayed.

In March 2018 the Sponsor Group noted that eight of the transitioning software providers, representing 60 per cent of the market, were at risk of not meeting transition timeframes. Project status reports in March 2018 noted that this situation was being monitored by account managers assigned to each software vendor.

On 6 June 2018 the software vendor readiness update for the Delivery Steering Committee noted that 'vendor transition remains the highest risk for the Program and vendor progress is being closely monitored by the account managers'. The Delivery Steering Committee agreed to escalate the risk of software vendors not transitioning in time to be monitored as an active issue by the Program Management Office.

The Program Management Office added the issue to the Issues Register and reported on it at the weekly issues resolution meetings. The Command Centre produced a weekly vendor readiness dashboard and Go-Live checklists. In June 2018 account managers met with large software vendors to provide additional support and briefed the SRO directly on the status of vendor transition.

By 22 June 2018, 94 per cent of child care providers and all large software vendors had transitioned. Three days after the commencement of the Package, the Sponsor Group reported that of the 16 vendors transitioning, 15 had transitioned, with the final vendor representing a small enough market share that their clients could use the Provider Entry Point portal as a contingency.

Source: ANAO analysis of Department of Education documentation.

Risk management (July 2018 onwards)

3.72   In anticipation of the closure of the Child Care Reform Program, the Program Management Office — in consultation with the department, DSS and Services Australia — reviewed and retired most of the program risks. These risks were related primarily to the Package rollout. On 4 July 2018, the Delivery Steering Committee approved formal closure of the Program Risk Register, with two outstanding fraud risks assigned to the department's Payment Integrity Group for ongoing management, as outlined in Table 3.5.

Table 3.5:   Outstanding fraud risks, July 2018

Risk	Action
Payment integrity is not appropriately controlled throughout the design and implementation of the new Child Care Program	The period during which these risks might have eventuated has passed, however payment integrity will only be confirmed by undertaking a compliance audit in October 2018 and taking actions to address any issues identified.
Potential for increased fraud/fraudulent behaviour during transition and the move from system based controls to legislative controls (loopholes).	

Source: ANAO analysis of Department of Education documentation.

3.73   As at 14 June 2019, the Payment Integrity Group was continuing to manage the following fraud risk:

> Failure to control serious non-compliance and fraudulent claims by a small proportion of approved child care services results in misuse of Australian Government funds and impacts on the department's reputation for effective administration of child care fee assistance to Australian families.

3.74   According to the department's risk management framework, each group must complete a risk management plan identifying, evaluating, treating and monitoring risks. These plans must be registered in RiskActive, the department's risk management system, and be reviewed twice each year.

3.75   As at 14 June 2019, each of the three groups within the Early Childhood and Child Care cluster had a risk plan registered in RiskActive. Each plan identifies the group's objectives and environment, the risks relevant to the group and the treatments established to mitigate or manage the identified risks. The ANAO reviewed the three risk plans and found that each risk was assigned a rating and one or more risk treatments, as outlined at Table 3.6. Each risk treatment was assigned a treatment owner, a status and the date of the next review. As at 23 June 2019, none of the 67 risk treatments were overdue for review.

Table 3.6:   Early Childhood and Child Care cluster risk plans, number of risks and treatments

Group	No. of risks	No. of treatments
Early Learning Policy and Network	6	28
Payment Policy and Engagement	16	16
Payment Integrity[a]	10	23
Total	**32**	**67**

Note a: Under the 2018 Services Schedule between the department and Services Australia, the department is responsible for controlling risks to child care payment accuracy that are the result of providers or third parties.

Source: ANAO analysis of Department of Education documentation.

3.76   An example of how the department is currently managing risks is provided at Case Study 3.

Case Study 3. Payment Integrity Group management of key risks

The Payment Integrity Group manages 10 risks, including the following risks that are rated as 'high' and relate to subsidy payments:

- Risk 1: Payment processes are complex and make accessing payments by families and providers difficult; and
- Risk 2: The Child Care Subsidy IT System does not deliver payments or functionality as intended.

The department developed a number of treatments to mitigate these risks, which included:

- for Risk 1: provision of policy advice and support [to key stakeholders], including complex approval issues, interpretation of legislation and rules, and improved approval IT functionality, and reports and data are available to evaluate policy performance; and
- for Risk 2: active participation in joint governance forums, following agreed project methodology to improve efficiency, reduce risk, enhance trust and work smarter, and business continuity arrangements to address system failures/limitations.

These risks required active management as there were a number of issues with subsidy payments following the rollout of the Package, including situations where providers and families did not understand the payment arrangements and issues with IT system functionality.

Understanding payment arrangements

In certain circumstances, families can receive their child care subsidy payments directly instead of as a fee reduction passed on by providers. In response to situations where providers and families were finding some payment arrangements complex and difficult to understand, the department released additional information such as factsheets and emails to the sector.

The department advised that some providers had estimated subsidy entitlements for families before the families had received official notification of their actual subsidy rate. Providers had then used these estimates to pass on fee reductions to families, which led to some payment anomalies. Estimating subsidy rates is inconsistent with the *Child Care Provider Handbook*, which recommends that providers invoice families 'for full fees for care in advance for the first period of care, with fee reductions applied to subsequent invoices'.[a] If the provider underestimates a family's subsidy entitlement and passes on a greater fee reduction than a family is entitled to, the department states that it is the responsibility of the provider to recover any unpaid fee amounts.

IT system functionality

Through complaints to the department's and Services Australia's helpdesks, payment issues relating to IT system errors have been identified. In response, a multi-disciplinary team comprising members from the department and Services Australia was established. It found no systemic issues with the payments system but it did identify 27 IT system issues. The department discussed these issues and a range of resolutions with Services Australia through forums such as the Project Board.

Note a: Department of Education, *Child Care Provider Handbook*, Version 1, June 2018, p. 63.
Source: ANAO analysis of Department of Education documentation.

Has a compliance framework been established and implemented?

A compliance framework has been established for the Package, building on prior compliance strategies and activities, and is in the process of being implemented.

3.77   In its 2013–14 financial statements audit, the ANAO identified significant weaknesses in the Child Care compliance program being implemented by the department and an estimated $546 million of incorrect payments being made to child care service providers. The ANAO continued to raise this issue in its financial statements audits until 2016–17. To address the weaknesses, the department implemented a number of improvements to its child care compliance framework. These included: establishing a taskforce focused on serious non-compliance matters; increasing the level of monitoring activities, including risk-based data interrogation and analysis; and targeting higher risk areas as part of the increased monitoring. Based on work performed by the department and the testing and review undertaken by the ANAO during 2016–17, the ANAO agreed that the recommendations relating to the significant audit finding on child care compliance had been substantially addressed and the finding was resolved.

3.78   In response to fraud issues emerging within the family day care component of the child care sector, the 2017–18 and 2018–19 Mid-Year Economic and Fiscal Outlook family day care payment integrity measures focused on increased compliance effort to: improve the integrity of payments to family day care services; and ensure a strong transition to the new Child Care Package due to commence 2 July 2018. The goal of the two measures was for a more compliant family day care sector and increased payment integrity for family day care.[45] These measures built on legislative changes introduced on 12 October 2015 that addressed 'child swapping' (that is, where some family day care operators 'swapped' children between services to receive child care payments).

Establishment of new compliance framework

3.79   In late 2017 the department commissioned a review of its approach to compliance in the lead-up to commencement of the Package on 2 July 2018. The review found that the majority (61 per cent) of compliance-related functionality was in place as at mid-June 2018. However, the review noted that further work was needed to operationalise the compliance framework within the department, and that there was no clear plan detailing transition activities over the next 12 months to implement the child care compliance framework. The rest of this section outlines the type of activities that the department has undertaken since mid-2018 to further develop its child care compliance approach.

3.80   The Package's broader child care compliance requirements are constituted through legislation and regulation, underpinned by the Child Care Financial Integrity Framework. The new integrity framework built upon the department's previous child care payments compliance program, including the two Mid-Year Economic and Fiscal Outlook measures. According to

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45   The 2017–18 family day care payment integrity measure was expected to remove 150 fraudulent family day care services from the system prior to the new Child Care Package commencing 2 July 2018, resulting in $1 billion in savings over five years from 2017–18. (*Mid-Year Economic and Fiscal Outlook 2017–18,* December 2017, p. 142). The 2018–19 measures were expected to achieve additional savings of $135.8 million over four years from 2018–19 through further targeted activities to address non-compliance and fraudulent behaviour in the family day care sector. (*Mid-Year Economic and Fiscal Outlook 2018-19,* December 2018, p. 168).

departmental documents, the family day care payment integrity strategies and activities are now integrated into the department's integrity framework. The Integrity Framework has three tiers, as shown in Table 3.7.

Table 3.7:   Child Care Financial Integrity Framework tiers

Tier	Description
Tier 1. Financial Integrity Strategy	Overview of the goals, principles and strategies that underpin the department's risk based approach to maintaining financial integrity.
Tier 2. Operational strategies	Strategies, approaches and principles to embed financial integrity and compliance into business as usual practices.
Tier 3. Operational guidance[a]	Operational resources, processes, education and training materials for internal and external stakeholders.

Note a: Tier 3 operational guidance was still under development at the time of the audit.

Source: ANAO representation of Department of Education documentation.

3.81   Tier 1, the Financial Integrity Strategy, outlines the department's approach to: maintaining the financial integrity of all child care payments and grants; monitoring financial integrity; and responding to child care providers, educators or families who are not meeting their legislative or program obligations. The Financial Integrity Strategy is comprehensive, with clearly stated principles and strategies. The strategies to promote financial integrity, as outlined in the overarching Integrity Strategy, include: assessing new child care providers against eligibility requirements; embedding financial integrity controls within the child care payments system; analysing data and transactions to identify patterns and behaviours related to non-compliance; evaluating data provided by other government entities and the public to assess behaviour in the sector; raising awareness of the child care payments system; prioritising systematic fraudulent and criminal behaviour; and responding to non-compliance by applying administrative, civil and criminal law remedies in a timely, efficient and risk-based manner. These strategies are expanded on in more detail in the Tier 2 operational strategies.

3.82   As at June 2019, the department had developed seven Tier 2 operational strategies[46] that underpin the Financial Integrity Strategy, as shown in Table 3.8.

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46   The department advised the ANAO that three additional operational strategies were under development and due for completion in August 2019: Capability; Payment Integrity Operation Plan; and Inter-agency collaboration.

Table 3.8:   Tier 2 Operational strategies

Operational strategy and dates finalised	Key components
Performance monitoring and reporting (January 2019)	Provides details of linkages with the department's overall reporting framework and operational reporting for its compliance activities, including details on performance measures and monitoring arrangements.
Education for providers and families (January 2019)	Approach centres on three streams of work: developing support materials; informing and 'nudging' providers toward compliant behaviour; and exploring alternative technologies to improve messaging to providers.
Governance (May 2019)	Identifies four governance committees: • Integrity Steering Committee — has overall responsibility and accountability for the delivery of the financial integrity program. The Committee has met 18 times since January 2018. • Integrity Sub-Committee — identifies, prioritises, manages and monitors the delivery of key strategies and projects in line with the Integrity Framework. The Committee has met 31 times since August 2018. • Integrity Advisory Committee — provides oversight and advice on delivery of the program. The Committee met once in October 2018.[a] • Integrity Inter-Departmental Committee — enables collaboration with other government entities in the prevention, detection, investigation and response to fraud. The Committee has met four times since March 2018.
Fraud prevention and management (May 2019)	Provides comprehensive details on three strategies for managing fraud in the administration of child care funding and the activities to be undertaken to prevent, detect and respond to suspected fraud.
Debt prevention, management and recovery (May 2019)	Provides an overview of the department's child care debt prevention, management and recovery strategies.
Intelligence and analytics (May 2019)	Outlines the overarching compliance data strategy, stakeholder needs, risks, governance, quality assurance, resourcing and type of products to flow from this strategy.
Communications and media handling (June 2019)	Outlines the communications strategy for messaging to the general public and child care providers.

Note a: The department advised that this committee has only met once because the remit of the Interdepartmental Committee was expanded following the decision to implement the additional family day care payment integrity measure, as announced in the 2018–19 Mid-Year Economic and Fiscal Outlook.

Source: ANAO analysis of Department of Education documentation.

3.83   As a compendium, the seven operational strategies are easily understood, internally consistent and align with the overarching Integrity Strategy. The roles and responsibilities of department personnel and governance arrangements are clearly outlined and a detailed explanation of the activities and processes to be undertaken by the department is noted within each strategy. In implementing its compliance strategies, the department is using a range of compliance data analytics tools. Case Study 4 describes some of the tools.

Case study 4.   Compliance data analytics tools

Random Sample Parent Checks are used to provide a statistically reliable national estimate of child care fee assistance overpayments and build on the department's ability to identify possible areas of emerging non-compliant practices, including possible areas of fraud. The checks collect information from families about their children's attendance at approved child care services. A comparison between the information provided by the families and the attendance information reported by services is used to measure program and payment integrity of child care fee assistance payments.

692 parents participated in the random sample check conducted in the March quarter 2019. The resultant report noted that the estimated child care payment accuracy rates for all child care payments, was 96.1 per cent (95.5 per cent reported in the December quarter 2018 report). By component, family day care payments accuracy was estimated to be 86.8 per cent (up from 85 per cent in the December quarter 2018); centre-based day care was 98.2 per cent (previously 97 per cent) and out-of-school hours care was 90.9 per cent (97 per cent in the December quarter 2018). As noted in the next section, one of the targets for the Package is that at least 90 per cent of child care payments to all services are accurate.

Targeted Calls Campaigns provide further information to the department about behavioural risk identified through the Random Sample Parent Checks, with the results provided to the Child Care Fraud Investigations team to aid in their investigations. According to the department, data obtained through campaigns has proved invaluable in identifying child care industry members behaving in non-compliant ways, allowing for efficient targeting of further enquiries and activities.

The department's compliance intelligence and analytics team has also developed a suite of reporting sourced from Services Australia's data warehouse called the **watchlist** process. The primary compliance monitoring purpose of the watchlist is to identify extreme reporting patterns, specifically concerning Child Care Subsidy reporting and high volumes of child enrolment activity. The watchlist is monitored on a daily basis, with a weekly summary provided to the responsible Branch manager and relevant department personnel. Watchlist issues are escalated to the Integrity Sub-Committee as required.

Source: ANAO analysis of Department of Education documentation.

3.84   The department is still developing most of the operational guidance (Tier 3) and business processes for its child care compliance and integrity functions, as well as educational resources and training material for internal and external stakeholders.

Compliance reporting

3.85   A Child Care Financial Integrity Framework Performance Progress Report was developed by the department in March 2019 covering the nine months from July 2018 to March 2019. The draft report noted that operational data demonstrated solid compliance actions and that data from the Random Sample Parent Checks showed that financial integrity is improving across the child care sector. However, the report also noted that:

> The implementation of the Integrity Framework is still in its early stages, and indicative data is not sufficiently available to permit assessment of the department's effectiveness in maintaining and

improving the financial integrity of the Australian Government's child care subsidy payments. It is anticipated that during the next reporting period, work will continue to improve data collection and interpretation to enable the department to deliver a more complete picture in the next Performance Report.

3.86   The structure of the draft progress report is comprehensive, providing a dashboard, reports on team activities during the reporting period, updates on family day care payment integrity measures, risks and related issues, and quarterly performance statistics (see Appendix 2 for child care statistics).

3.87   The department also publishes a quarterly enforcement action register that provides details of sanctions. Quarterly results since late 2017–18 were:

- fourth quarter of 2017–18 (prior to commencement of the Package from 2 July 2018) — 89 child care service cancellations and 12 suspensions;
- first quarter of 2018–19 (following commencement of the Package) — 13 cancellations and one suspension;
- second quarter of 2018–19 — 20 cancellations and one suspension; and
- third quarter of 2018–19 — seven cancellations and five suspensions.

3.88   Reporting to the Integrity Sub-Committee on 17 June 2019 about the family day care payment integrity measures resulting from Surge 2 activity noted that: nine child care services had been cancelled; 12 services were suspended; and 20 notices of intent to sanction had been issued. In total, across both surge 1 and 2 activities, the department cancelled 62 services and suspended 21 services in 2018–19.[47]

ANAO financial statements audit

3.89   The ANAO has observed during its financial statements audits that the estimated payment error rates in child care (under the previous scheme) had reduced over recent years as a result of the department's focus on improving compliance activities. For example, the department reported in its 2017–18 annual report that the payment accuracy of child care fee assistance claimed by child care providers on behalf of families had improved from an estimated 94.6 per cent in 2016–17 to an estimated 96.6 per cent in 2017–18. As part of its 2018–19 financial statements audit, the ANAO tested: the department's risk assessment processes for the child care program; the controls relating to the Random Sample Parent Check and the approval of child care providers; and the overall compliance framework for all child care payments. The 2018–19 Interim Management Letter (June 2019) to the department did not raise any audit findings in respect to the department's implementation and management of the new child care subsidy legislation.

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47   Surge 1 activity relates to compliance activity undertaken by the department that commenced and had been finalised between 1 November 2017 and 30 September 2018. Surge 2 compliance activities commenced and/or was finalised from 1 October 2018.

Has an effective performance management framework been established?

A performance management framework has been established for the Package which has the potential to be effective.

3.90   The PGPA Act provides the basis for the Commonwealth performance framework (the framework). The framework consists of the PGPA Act, the accompanying Public Governance, Performance and Accountability Rule 2014 and guidance issued by the Department of Finance. An important element of the framework is the clear alignment of the purpose(s) to the planned outcomes of the entity, and that the performance information provided by the entity provides Parliament and the public with information to assess an entity's progress towards achieving their purpose(s).

3.91   The department's performance management arrangements are outlined in its *Performance Framework*. This document provides: the performance framework cycle; the department's approach to data assurance and performance methodology; the internal business plan and non-financial performance monitoring arrangements; an operational process map; and areas for future improvement.

3.92   The relevance and reliability of performance criteria presented by entities in their portfolio budget statements, corporate plans and annual performance statements is critical to fulfilling the transparency and meaningfulness aims of the framework.[48] Performance indicators are considered to be:

- 'relevant' where they identify benefits/beneficiaries, address the objective/purpose and are clear, concise and easy to understand; and
- 'reliable' where they can be measured to demonstrate progress (including a documented target or baseline where appropriate), and are free from bias.

3.93   In 2018 the ANAO reviewed the department's 2017–18 performance measures for Outcome 1 — Quality early learning and schooling' in Auditor-General Report No.17 2018–19 *Implementation of the Annual Performance Statements Requirements 2017–18*. The ANAO's analysis noted that all of the Package's seven performance measures (underpinning the two KPIs for the Package) for 2017–18 were relevant. Three measures were either reliable or mostly reliable, three were partly reliable, and one was not reliable. At that time, there was no efficiency measure for the Package.

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48   While criteria that set a minimum standard for the quality of performance information are not defined in the PGPA Act, the Department of Finance has provided guidance to entities on the characteristics of 'good' performance information — relevant, reliable and complete. In the absence of formal criteria in the PGPA Act, the ANAO drew on the Department of Finance's guidance, and other relevant reference points, to develop audit criteria for assessing the appropriateness of performance information. These criteria are used consistently in ANAO audits and were applied in this audit.

3.94   To determine whether the Package's KPIs are adequate, the ANAO compared the intended outcomes for the Package with the related activities and performance measures.[49] In the *Corporate Plan 2017–18* the department's activities were readily identifiable and most aligned with the overall purpose, but some activities and delivery strategies could have been more clearly described. While the KPIs were intended to measure effectiveness, the ANAO also noted that they focused more on departmental activities and outputs and did not measure the achievement of the government's objectives.

3.95   The department has developed a plan for implementing the three recommendations from Auditor-General Report No.17 2018–19, which includes a commitment to:

- form a cross-departmental team to ensure analysis of its performance in its 2018–19 annual performance statements provides the reader with an understanding of environments that may have impacted our ability to achieve our purpose;

- include information on the data sources and methodologies for all of its performance measures in its corporate plan and annual performance statements; and

- include reference to the importance of measuring efficiency in its performance framework and determine the best approach to measuring efficiency.

3.96   The department's *Portfolio Budget Statements 2019–20* included two KPIs and related annual targets for the Package (see Table 3.9). While the 2019–20 corporate plan does not identify any KPIs or the programs to which the targets relate, the annual targets for the Package from the PBS have been included.

Table 3.9:   Key performance indicators for the Package

KPI	Annual target
Child care support is targeted to vulnerable and disadvantaged families and communities.	100% of the Child Care Safety Net supports vulnerable and disadvantaged families and communities.
Ensuring accurate child care payments.	At least 90% of child care payments to all services are accurate.

Source: Portfolio Budget Statements 2019–20, Budget Related Paper No. 1.5. Education and Training Portfolio, 2 April 2019, p 25.

3.97   The ANAO assessed the two KPIs and related annual targets as relevant, one as reliable and one as partly reliable. The 2019–20 Corporate Plan has included new information on the methodology for calculating the annual targets, which may assist the reader to assess the reliability of the target.

3.98   Analysis undertaken for Auditor-General Report No.17 2018–19 indicated that the Package's performance measures included a mix of activity, output and effectiveness measures, were generally quantitative in nature and included a mix of short to medium term timeframes.

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49   For the review of activities that do not relate to an entire entity, the ANAO examines the adequacy of performance measures within an activity area rather than whether they are complete or not. Performance indicators are considered to be adequate where they: collectively address the purpose of the activities identified in the corporate plan; and provide a balance between: effectiveness and efficiency indicators, quantitative and qualitative data, and short, medium and long-term performance.

Has an evaluation framework been developed and implemented?

An evaluation framework has been developed and is being implemented, with the first report finalised in July 2019 and the final report expected in June 2021.

3.99   The department commissioned the Australian Institute of Family Studies, in association with the Social Research Centre, the University of New South Wales Social Policy Research Centre and the Australian National University Centre for Social Research and Methods to undertake an evaluation of the Package including the major policy changes being implemented in July 2018.

3.100   The evaluation project commenced in December 2017 and the evaluation framework was published in June 2018. The framework includes three phases and three main reports: an early monitoring report (July 2019); an interim report (due in December 2019); and a final evaluation report (due in June 2021). The evaluation is to report on the outcomes and impacts of the Package and cover evaluation activities through to June 2021.[50]

3.101   The first evaluation report, the *Child Care Package Evaluation: Early Monitoring Report— Report on baseline, early monitoring and emerging issues* (July 2019), was based on data collected just before and after the transition. It provides information on stakeholder expectations about the implications and impacts of the Package and discusses stakeholders' perceptions of their readiness for the changes and their experiences of the transition. Key data sources included two baseline surveys for parents and providers, which were conducted in May–June 2018, and two post-implementation surveys for parents, which were conducted in July–August 2018 and November 2018.

3.102   The early monitoring report noted that the initial indications are that the transition was successful at transferring services and families into the new system and that:

> … services were, on balance, prepared for the transition to the Package and that the transition process was largely effective in moving the services, and children attending them, to the Package and the new IT system – the Child Care Subsidy System…. While the transition process achieved the transfer of services and children to the new system, some issues did arise. Aspects of the functionality of the Child Care Subsidy System remain problematic, including reporting, and there was a view by many services that the transition process had imposed a heavy (unfunded) burden on the sector.[51]

3.103   The report concluded that the Package 'has resulted in some positive outcomes for some families and negative outcomes for others'[52], that it would take some time for the effects of the Package to flow through, and that it was too early to report any substantive findings concerning the impact and outcomes of the Package. The report did note that, while currently available data is limited:

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50   At the time of the audit, the department had planned to undertake post-implementation reviews in relation to Child Care Safety Net programs, the transition and the design and implementation of the new IT system.

51   Australian Institute of Family Studies, *Child Care Package Evaluation: Early Monitoring Report—Report on baseline, early monitoring and emerging issues*, July 2019, p. 99.

52   Australian Institute of Family Studies, *Child Care Package Evaluation: Early Monitoring Report—Report on baseline, early monitoring and emerging issues*, July 2019, p. 100.

- most respondents reported no or little change to their child care out-of-pocket child care expenses, but low income families were more likely to report that their child care costs had decreased than high income families:

    − 42 per cent of families with incomes below $65,000 reported decreased child care costs and 24 per cent reported increased costs;

    − 39 per cent of families with incomes between $65,000 and $170,000 reported decreased costs and 28 per cent reported increased costs;

    − 10 per cent of families with incomes over $170,000 reported decreased costs and 65 per cent report increased costs;

- most families reported no change in their use of child care; and

- most families reported no change in their level of workforce participation.

3.104   The report indicated that these initial findings would be further scrutinised in the evaluation along with more detailed analysis of the transition and the impact and outcome of the Package including on the costs of child care for families, changes in workforce participation, access to child care, the robustness of the child care sector and the sustainability of government funding.

Rona Mellor PSM   Canberra ACT
Acting Auditor-General   30 September 2019

Appendices

Appendix 1   Department of Education response

Australian Government
Department of Education

Secretary
Dr Michele Bruniges AM

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Hehir

Design and Governance of the Child Care Package

Thank you for the opportunity to respond to the proposed Australian National Audit Office (ANAO) audit report on the 'Design and Governance of the Child Care Package'. The Department of Education ('the department') acknowledges the need to accurately and consistently describe the Australian Government's policy objectives in the implementation of the Child Care Package ('the Package') and the need to further develop oversight arrangements to maintain implementation of the Package.

The department's summary response and response to the recommendation is below:

Summary Response

> *The department welcomes the ANAO's report and will use the findings and observations from the report to inform and enhance ongoing Package implementation and delivery arrangements. The recommendation is agreed and the ANAO's suggested area for improvement regarding oversight arrangements for the Package will also be used to strengthen existing arrangements including where service delivery is outsourced to another entity.*

Response to the recommendation

> *The department agrees with the recommendation and will ensure that the Australian Government's key policy objectives for the Child Care Package are accurately and consistently stated in all relevant documentation at the entity and program level.*
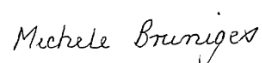
Opportunity through learning

50 Marcus Clarke Street, Canberra ACT 2601
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I would like to thank the ANAO audit team for their professional and collaborative approach and acknowledge the usefulness of the insights and suggestions for improvement that are included in the report.

If you would like further information on the department's response, please contact Ms Kylie Crane, Group Manager, Payment Policy and Engagement on (02) 6240 9177.

Yours sincerely

Michele Bruniges

Dr Michele Bruniges AM
/4 September 2019

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Appendix 2   Child care data, December quarters, 2017 and 2018

Key data	December quarter 2017	December quarter 2018	Change (%)
Number of children accessing approved child care	1,302,940	1,316,080	1.0
Number of families accessing approved child care	897,880	923,390	2.8
Number of Indigenous children using child care	34,500	50,950	47.7
Number of approved child care services	**18,418**	**12,886**	**(30.0)**
• Centre-based child care[a]	7,349	7,826	6.5
• Family day care[b]	668	499	(25.3)
• Outside school hours care	10,341	4,512	(56.4)
Total subsidy entitlements ($million)	1,827	1,961	7.4
Average hourly fee	$9.00	$9.55	6.1
Average weekly hours for each child	**24.6**	**24.7**	**0.4**
• Centre-based child care[a]	28.8	29.5	2.4
• Family day care[b]	28.6	25.0	(12.6)
• Outside school hours care	11.2	11.6	1.8

Note a: Centre-based child care is the combination of the former long day care and occasional care. The department advised that due to changes in the way services are counted, care should be taken when making direct comparisons of outside school hours care service numbers. Previously before school care, after school care and vacation care were all counted as individual services but under the Child Care Subsidy System they are not. This has had an impact on the reported number of services.

Note b: In 2017 the report included in-home care with family day care. The department advised that the reduction in the number of family day care services is primarily due to the impact of compliance activity.

Source: ANAO representation of Department of Education data.