

Ministerial review of the Early Years Quality Fund

Final Report

*Department of
Education*

12 November 2013

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Acronyms

CCB	Child Care Benefit
CGGs	Commonwealth Grant Guidelines
DEEWR	Department of Education, Employment and Workplace Relations
ECEC	early childhood education and care
ECT	early childhood teacher
EQYF	Early Years Quality Fund
FAQs	Frequently Asked Questions
FDC	family day care
IGC	Internal Governance Committee
LDC	long day care
NQF	National Quality Framework
OSHC	Outside of School Hours Care

Overview of findings

On 19 March 2013, the Australian Government announced the Early Years Quality Fund (EYQF). The EYQF provides \$300 million over two years to early childhood education and care (ECEC) providers. The objective of this program, as announced in a joint media release by Ministers Garrett and Ellis, was to further support the effective implementation of the National Quality Framework (NQF), including the requirements relating to educator qualification requirements commencing in 2014.²

Prior to the Australian Government entering caretaker mode, 453 letters of offer were issued by the then Department of Education, Employment and Workplace Relations to ECEC providers who had applied for the EYQF. Funding agreements were executed with 12 of those providers. However, no funds have been paid from the EYQF Special Account as of 31 October 2013.

On 10 October 2013, PwC was engaged to undertake a review of the implementation process of the EYQF. The terms of reference of the review focused on the process to establish the EYQF, the experience of the ECEC sector and the application and assessment process.

This report provides our key findings on these terms of reference after analysis of documentation provided by the Department of Education (the Department) and by other interested stakeholders, as well as of information from consultations with the Department, Advisory Board members, selected peak bodies and ECEC service providers.

It is important to note that the scope of this review did not extend to the objectives, design or the quantum of the EYQF. However, where aspects of the EYQF's objectives, design and funding have affected operational and implementation issues, some commentary has been provided.

Objectives of the EYQF

The National Partnership Agreements on Early Childhood Education and the National Quality Agenda for Early Childhood Education and Care recognises that in order to achieve high quality early childhood education outcomes for children, a qualified and professional ECEC workforce is required. One of the significant elements of the NQF is the introduction of national qualification requirements for ECEC educators in preschool, long day care (LDC) and family day care (FDC) settings.

A key challenge in the introduction of the NQF qualification requirements is the ECEC sector's ability to attract and retain qualified staff, and a key factor affecting this is the prevailing pay and conditions in the sector. The announced objective of the EYQF is reflected in operational terms in the EYQF Program Guidelines as 'to assist providers to offer higher wages consistent with changes in staff-to-child ratios and the increased qualification requirements of the NQF'.³

The EYQF allowed for funding for two years from 1 July 2013. However, as acknowledged by all parties, the \$300 million allocated to the EYQF over two years is not adequate to fund a significant increase in wages for all qualified staff in the ECEC sector. Based on documentation provided to PwC, there is no evidence of consideration being given to the impact of the EYQF on the sector regarding market distortion by having only a small

² Source: Joint Media Release by Minister Garrett and Minister Ellis '300 million boost to support quality early childhood education', 19 March 2013

³ Source: EYQF Program Guidelines, Minister Garrett's Second Reading Speech 30 May 2013 & Joint Media Release 19 March

proportion of the sector receiving subsidised wage rises. There is also no evidence of consideration being given to the impact of the cessation of program funding in 2015.

The Government decided to target access to the EYQF to Child Care Benefit (CCB) approved LDC services and to provide grants to subsidise wage increase of \$3.00 per hour for Certificate III qualified educators and proportional increases across the classification scale.

From the outset this funding allocation, in combination with other policy parameters determined by the Government (outlined below), significantly constrained the ability of the EYQF to be implemented by the Department in an effective and equitable manner.

Policy parameters of the EYQF

As previously stated, this review does not seek to assess the objectives of the EYQF nor the quantum of the funds required to meet those objectives. However, the following policy parameters are important to highlight as they have placed constraints on the ability of the Department to implement the EYQF in an effective and equitable manner. These policy parameters were determined by the Government⁴ prior to the establishment of the Advisory Board.

\$3.00 per hour wage increase

Based on documentation provided to PwC, it is unclear how the \$3.00 per hour wage increase was determined. For a Certificate III qualified educator on the award wage rate of \$19.72 per hour, this equates to a 15 per cent wage increase.

Limiting access to LDC services

Limiting access to CCB approved LDC services meant that funding for wages was targeted to the largest portion of the ECEC sector as LDC services make up approximately 50 per cent of the sector.⁵ While the EYQF intended to provide support to the largest portion of the sector, the quantum of wage increases meant that even within the LDC sector approximately 70 per cent of LDC educators would not benefit. This equates to approximately 84 per cent of the entire sector not receiving funding under the EYQF.

Limiting wage supplementation to LDC also ignores the needs of other ECEC services that are also experiencing workforce challenges in attracting and retaining qualified educators e.g. preschools, FDC and Outside of School Hours Care (OSHC) providers. The wage subsidy once embedded would be likely to further reduce the ability of providers in these sectors to attract and retain workers. Some providers commented that this was also particularly divisive for staff in centres that offer multiple types of services.

Wage increases must be applied across all classifications

Providing grants to pay wage increases for staff across the classification scale meant that funds were not targeted to the lowest paid staff, as funds were to be used to increase wages for all staff at a service. This includes those staff whose wages were already above the award.

Further, the EYQF also does not target funds to wage pressures related to the increased qualification requirements of the NQF. Funding wage increases for unqualified staff and non-contact staff does not support the objective of the EYQF to increase the number of qualified educators.

⁴ Further, documentation of the advice from the Department to the Government on these matters was not made available to the review team, as it is contrary to convention to release documents recording the deliberations of a former Minister to a new Minister where there has been a change of government.

⁵ As at September 2012 there were 615,630 children attending LDC in Australia and over a million attending across all forms of education and care. (p. 4, DEEWR submission to the House of Representatives Standing Committee on Education and Employment Inquiry into the EYQF Special Account Bill 2013).

Early in the establishment of the EYQF, the Department estimated that funding would be provided for approximately 1700 services but if wage increases were not extended to unqualified staff, the number of services to benefit could increase by around 12 per cent (i.e. an additional 204 services).

Requirement for an enterprise agreement

Services were required to have, or commit to have, an enterprise agreement. Services approved for EYQF funding were required to have an enterprise agreement in place before grant funding would be released.⁶ However, services without an enterprise agreement at time of application could be conditionally approved pending wage increases being included in an enterprise agreement which was approved by the Fair Work Commission.

The Department reports that prior to the EYQF the proportion of LDC services covered by enterprise agreements was approximately 25 per cent. For the remaining 75 per cent of existing services that did not have an enterprise agreement, the program required them to negotiate an enterprise agreement or, if they chose not to have an enterprise agreement, then that provider would be precluded from accessing the EYQF.

This enterprise agreement requirement may reduce the administration burden on the Department in ensuring that funds are used for the purpose of wage increases, and is an approach that has previously been used in the aged care sector. However, it was a cause for concern for some staff and services, as it resulted in costs being incurred in relation to time and resourcing for enterprise agreement negotiation.

The Department reports that prior to the announcement of the EYQF, there were approximately 100 enterprise agreements in the sector, but by the end of October 2013, this number had increased to over 400 enterprise agreements in the sector.

There is evidence that the requirement to have an enterprise agreement was used by United Voice to increase its membership. The Department advises that it monitored all media streams relevant to the EYQF and that the Big Steps Facebook page made several statements that staff needed to join the union in order to be eligible for funding under the EYQF.

First in-first served

The policy was for applications to be processed in the order in which they were received by the Department and were to be assessed until the \$300 million funding cap was reached. This 'first in-first served' approach placed pressure on the sector to submit their applications as soon as possible and rewarded providers that had the ability to dedicate resources to the application process from the point at which the guidelines were released. At the same time, it disadvantaged smaller providers who required time and additional support to understand the guidelines before determining whether or not to apply.

Documents from the Department indicate that one option considered was to undertake a merit-based competitive process with 'first in-first served' used to distinguish between two equally meritorious applications.

It should be noted that section 4.8 of the Commonwealth Grant Guidelines (CGGs) states 'Competitive, merit based selection processes should be used to allocate grants, unless specifically agreed otherwise by a Minister, Chief Executive or delegate. Where a method, other than a competitive merit based selection process is planned to be used agency staff should document why this approach will be used.'

No record was found in the documents reviewed to explain why a competitive merit-based process was not used.

⁶ This was in addition to Australian Government grant acquittal processes

Process for implementation

PwC reviewed documentation provided by the Department, which included information on:

- the establishment of the EYQF
- the establishment of an Internal Governance Committee (IGC) and the Advisory Board
- the application and assessment process
- the Department's decision minutes and probity advice.⁷

The IGC examined all implementation and policy issues.

Timing of release of Program Guidelines and the application process

The Program Guidelines for the EYQF were published on the Department's website on Friday 19 July 2013 at 11am. LDC providers and Advisory Board members were advised in advance via email that the Program Guidelines were going to be released that morning and that applications will open from 11am on Tuesday 23 July 2013.

This short timeframe raised concerns that the sector was not provided with sufficient time to absorb the information included in the guidelines and to seek clarifications if required. It also placed pressure on providers to compile the required information within a very short period of time.

Many staff and centre directors reported needing to work over the weekend and after hours to compile the necessary information for their application. For smaller providers, this was a challenging task in understanding what was required and in determining where the information could be sourced. The largest providers were generally able to dedicate people to compiling the required information, utilising resources across IT, legal and grants management. However, not all large providers were able to mobilise resources in this manner, and many also found it to be a costly and complex process in terms of compiling information across a number of services and locations within the tight timeframe.

Section 8.4 of the CGGs requires agency staff to choose methods that will promote open, transparent and equitable access to grants. In particular, that agency staff should ensure that publicly available grant opportunities are notified in ways that provide all potential grant applicants with reasonable opportunity to apply.

The Department reports that for other programs it administers the period of time between the release of the documentation to 'promote open, transparent and equitable access to grants' and the opening of the grants process is usually three to four weeks.

Minutes from the final Advisory Board meeting indicate that members considered that the sector should have at least one to two weeks to consider the Program Guidelines and associated documentation before applications opened and that this was particularly important for small providers.

There were a total of 453 applications that were assessed as meeting the assessment criteria, all of which needed to have been submitted very rapidly, as illustrated by the following:

⁷ This excluded advice provided by the Department directly to the Government as it is contrary to convention to release documents recording the deliberations of a former Minister to a new Minister where there has been a change of government

- the funding cap of \$300 million was reached within 13 hours of the application process opening (a total of \$297.4 million was allocated after adjustments and corrections)
- over 80 per cent of the funding for large providers was exhausted within the first hour due to a single application from the largest service provider, the total pool was exhausted within three hours
- over 80 per cent of the funding pool for small providers was exhausted within five hours of applications opening, the total pool was exhausted within 13 hours
- twelve funding agreements were executed on 6 September 2013. PwC notes that this agreement execution occurred during the Federal election caretaker period.

Documentation on the assessment process indicates that a large proportion of the providers given conditional offers of funding identified that they are already meeting the NQF qualification requirements. Data provided by the Department indicates that 67 per cent of services from small providers declared they were currently meeting the qualification requirements and less than 1 per cent of applications from large providers identified that their services did not currently have early childhood teacher (ECT). This outcome highlights that the EYQF did not effectively target services that were struggling to meet the NQF qualification requirements.

Advisory Board

An Advisory Board was established to provide advice on the implementation of the EYQF and on the content and operation of the Program Guidelines for the EYQF.

The composition of the Board was determined by the Minister with the objective of being representative across the ECEC sector. However, the composition of the Board has been criticised by peak bodies as it included representatives from large service providers that were also potential recipients of the EYQF. These large providers were among the first providers to submit their applications after the opening time of 11am Tuesday 23 July. The quantum of funds sought by one of these providers equated to 45 per cent of the total funding allocated.

As observed above, the larger service providers would in any case likely have had the capabilities and resourcing to interpret the guidelines and to compile the necessary information for an application within a tight timeframe. No evidence has been presented in this review that indicates the two large providers on the Board benefited in any additional way from having representation on the Board, and no adverse finding is made in this report.

The original intention was that Advisory Board members would operate in their personal capacity as experts within the sector with specific knowledge to assist with implementation. Having members operate in their personal capacity was to minimise potential conflicts of interest. However, it was subsequently decided that substitute members could be drawn from their organisation. Except for one member, every member was represented by a substitute member at least once.

Minutes from Advisory Board meetings indicate that members were aware of potential for conflict of interest issues and members or substitute members were advised that they should not be involved or assist with the preparation of applications before the opening date of the EYQF or use any information gained from participation in meetings. An external probity adviser was engaged by the Department to provide further advice on this and other issues.

Regardless of these measures, it seems unlikely that this will alleviate the perceptions regarding bias, particularly that of the three large providers that were given conditional offers of funding, two of those had representatives on the Board.

There was extensive discussion about the equitable distribution of funds under the EYQF. Several options were considered, including jurisdictional or geographical splits.

The original application process was to require service by service applications, as recommended by the IGC. Several Advisory Board members were concerned that this would create complexity for those providers operating multiple services that were covered by one enterprise agreement. Therefore, the Board suggested allowing multi-service providers to submit a single application.

However, the Board recognised the potential for large providers to be the main beneficiaries of the EYQF if the application process allowed a multi-service provider to submit a single application due to their ability to mobilise resources to submit applications. The Advisory Board did consider options to improve equity including recommending that the funding be split into two funding pools (large providers and small providers). The final Program Guidelines indicate that:

- 50 per cent of the total funds were allocated for large providers, which represent 19 per cent of the sector⁸
- the other 50 per cent of the total funds were allocated for small providers which represent 81 per cent of the sector⁹.

Minutes from an Advisory Board meeting show that the Board considered splitting the pools into amounts that were more aligned to their representation of the sector i.e. 19 per cent of the pool (\$57 million) should be allocated for larger providers. However, the Department reports that this was not supported by the Board as they recognised that \$57 million was not sufficient to fund an application from the largest service provider.

Department of Education

The time taken to settle the detail of the policy of the EYQF meant that little information could be released by the Department in the period between when the policy was announced by the Minister on 19 March 2013 and when the Program Guidelines were released on 19 July 2013. This constrained the ability of the Department to effectively communicate with the sector.

A consistent message throughout the consultations and the review of available documentation was that the Department performed with integrity, undertook due diligence and worked to improve the equity of the EYQF. However, it was clear that the Department was significantly constrained by the policy parameters and the tight timeframe.

The sector raised concerns in relation to the Department's response to requests for further information prior to release of the Program Guidelines, particularly when the sector reported being provided information by other sources which suggested there was a requirement for union membership.

The Department published on its website a set of Frequently Asked Questions (FAQs) to coincide with the Minister's announcement on 19 March 2013. However, these could have been distributed more widely or updated more frequently, as some issues, while addressed in the FAQs from the outset, continued to cause concern for the sector. The Department has indicated it was constrained in its ability to issue further communications with the sector as the Advisory Board was not established until two months after the policy announcement to consider policy issues, approve guidelines and approve communications to the sector.

It is important to note that PwC has not been able to review the advice provided by the Department to the Government as it is contrary to convention to release documents

⁸ As reported by the Department, based on number of services.

⁹ *ibid*

recording the deliberations of a former Minister to a new Minister where there has been a change of government. As a result, this review was unable to consider the quality of advice being provided to the Government on the key policy parameters or other implementation issues identified in this report.

Experience of the ECEC sector

The initial announcement of funding to support attracting and retaining qualified ECEC staff was welcomed by the sector. There was support for the EYQF as an important first step in the push for professional wages across the sector. However, as the details of the EYQF became understood more broadly, it became a divisive issue that caused some distress to the sector:

- While there was support for the intent of the policy, there were concerns that it was being implemented in an inequitable manner.
- There were views that it is the role of the Fair Work Commission to determine fair and appropriate wage rates and not the role of Government to be subsidising wages or requiring enterprise agreements.

A consistent message from consultations was the concerns that the union was providing members and service providers with information that was not consistent with information being issued through the Department.

- Providers reported being shown as yet unapproved and unpublished wage schedule rates and told to include these in their enterprise agreement, but the providers were unable to confirm the accuracy of these wage schedules with the Department until the Program Guidelines were issued.
- Despite the Department's FAQ clearly stating that union membership was not a requirement for EYQF eligibility, a stakeholder provided PwC with an example of inconsistent information contained in a United Voice newsletter for members in Queensland (dated 20 March), which explained the process for qualifying for EYQF as follows:

- 1 A clear majority of workers join United Voice
- 2 United Voice negotiates a new enterprise bargaining agreement
- 3 Owner/Operator signs agreement with government
- 4 New funding flows, workers get raise.

We note that United Voice has indicated that the distribution of misleading information was not done with the consent of union leadership, and that steps have been taken to address cases where union organisers have misled workers.

The Department informed PwC that it also received a number of complaints regarding representations from United Voice. PwC was provided with emails from services stating that United Voice representatives were telling their members that if a majority of educators at a service are United Voice members then this would meet the Department's requirement to demonstrate commitment to the NQF.

The Department wrote to the National Secretary of United Voice stating that it had not investigated the veracity of complaints received, but that the Department would issue revised FAQs regarding eligibility for EYQF and requested the FAQs be forwarded to United Voice officials and delegates to ensure accurate information was being relayed to the sector.

Further, the Department emailed to all LDC services on 18 April to reiterate that the only source of definitive information regarding the operation of the EYQF is the Department

website and that FAQs had been updated to include information that union membership is not a requirement for EYQF eligibility.

Conclusion

The EYQF was established in response to a growing recognition of the need for professional wages in the ECEC sector, and to address this as one of the key challenges for the implementation of the NQF qualification requirements.

The funding of \$300 million was not sufficient to support higher wages to attract and retain staff for the ECEC sector as a whole and it was not sufficient to fund the entire LDC sector. The decision to limit access to only LDC services and to support wage increases of \$3.00 per hour for Certificate III qualified workers and proportional increases across the classification scale (and to include wage increase for unqualified staff) further constrained the equitable access to funds by the ECEC sector.

There were also a number of key implementation decisions that significantly compromised the ability of the EYQF to provide effective and equitable support for the implementation of the NQF qualification requirements:

- ***Splitting the EYQF into two pools:*** Fifty per cent of the EYQF was allocated to large providers which represent 19 per cent of the sector. Fifty per cent of the EYQF was allocated to small providers which represent 81 per cent of the sector. The impact of this decision was that it favoured large providers disproportionately.
- ***First in-first served:*** This placed pressure on the sector to submit their applications as soon as possible and disadvantaged smaller providers who required time and additional support to understand the guidelines before determining whether or not to apply. The impact of this decision was that the large provider pool was exhausted in three hours and the small provider pool was exhausted within 13 hours. It is unclear from documentation reviewed why a competitive merit-based process was not used.
- ***Limiting to LDC services:*** The Department estimates suggest that 20.3 per cent of LDC services would benefit under the EYQF. This means that 30.5 per cent of the LDC workforce would potentially receive higher wages subsidised by the Government, representing only 16 per cent of the total ECEC workforce.
- ***Extending wage support for unqualified staff and non-contact staff:*** Funding wage increases for unqualified staff and non-contact staff does not support the objective of the EYQF to increase the number of qualified educators.
- ***Funding providers who are already meeting NQF qualification requirements:*** Assessment documentation indicates that a large proportion of providers that were given conditional offers of funding are already meeting the NQF qualification requirements. This outcome highlights that the level of need was not considered during assessment and therefore the EYQF failed to assist the services with greatest challenges to meet the NQF qualification requirements.
- ***Requirement for an enterprise agreement:*** The requirement for an enterprise agreement disadvantaged small providers who had less experience with the process and provided an advantage to large providers who either already had an EBA or were resourced well enough to enter into one quickly. There is also evidence that this requirement was used as a vehicle to increase membership in United Voice.
- ***Large providers on the Advisory Board applied for funding:*** Many in the sector perceive the inclusion of providers onto the Board as unfair and believe that the guidelines and funding process was manipulated to their benefit. No evidence has been presented to this review to substantiate such a perception. The Department was conscious of conflicts of interest being an issue and an external probity adviser was engaged by the Advisory Board to provide further advice on issues including conflicts of interest and confidentiality. Regardless of these measures, it seems unlikely that this will alleviate the perceptions regarding bias, particularly as of the three large

providers that received conditional offers of funding; two had representatives on the Board.

- ***The sector was being provided with unapproved and unpublished information:*** The sector reported being provided misleading information by United Voice regarding eligibility requirements for the EYQF. This created confusion and angst amongst many providers and employees.
- ***Reports of inappropriate behaviour by United Voice representatives:*** In addition to the reports of misinformation, there was a consistent message that stakeholders believed some of the behaviour of United Voice representatives during this time was inappropriate. The majority of peak bodies reported that union delegates were using the EYQF as an opportunity to increase membership and pressured staff into feeling they were letting down their colleagues if they did not join the union.

The funding constraints, together with the implementation and operational issues resulting from the constraints of the EYQF policy parameters, significantly constrained the ability for the EYQF to be implemented in an effective and equitable manner. Further, the experience of the sector during this time appears to have been one of confusion and angst.

Given the extent of these implementation and operational issues, it appears unlikely that the EYQF will significantly assist progress towards implementation of the NQF qualification requirements.

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1 Purpose and method of the review

The Australian Government committed to undertaking a Ministerial review of the Early Years Quality Fund (EYQF) implementation process. The review has been prompted by the concerns raised by the sector with regards to the EYQF.

This review is not a review of the quantum, design, effectiveness or efficiency of the EYQF. Rather, this review is a strategic and largely qualitative review of the implementation process. This review considers:

- the process by which the EYQF was established, including the legislative and governance arrangements
 - the experience of the early childhood education and care (ECEC) sector regarding the EYQF implement process, including
 - the EYQF Advisory Board, and
 - ECEC providers and educators who raised issues regarding the EYQF
- the submissions made to the House of Representatives Standing Committee on Education and Employment and the Senate Committee on Education, Employment and Workplace Relations on the *Early Years Quality Fund Special Account Bill 2013*
- Departmental processes and documentation, including
 - Program Guidelines for the EYQF
 - the application and assessment process, and
 - communication with the sector or stakeholders regarding the EYQF.

PwC undertook analysis of documentation provided by the Department related to the establishment and implementation of the EYQF and information collected from consultations with key stakeholders.

PwC reviewed documentation provided by the Department which included information on:

- the process and the EYQF program
- governance
- the application and assessment process
- the decision minutes and probity advice.

PwC also examined all the submission made to the House of Representatives and Senate Committees in their respective inquiries into the *Early Years Quality Fund Special Account Bill 2013*.

This information was relied upon to provide evidence of comments provided through the consultation process and as a primary source of data.

Purpose and method of the review

In addition PwC undertook a series of consultations with internal and external stakeholders including:

- the EYQF Advisory Board
- applicants to the EYQF (both providers who were given conditional offers and providers whose applications were received after the cap was reached)
- representatives of the Department of Education.

The consultations focused on capturing the experience of each of these parties in relation to the development and implementation of the EYQF.

2 *Timeline of EYQF*

A key issue in this review concerns the pressures imposed by the ambitious timeline adopted for the design and implementation of the program. The purpose of this section is to clearly outline the key events in the EYQF timeline. In particular, the EYQF was announced on 19 March, further information on the application process was not released until the Program Guidelines were issued on 19 July. This constrained the Department’s ability to effectively communicate with the sector in the three months preceding the application process.

Policy development and announcement

19 March	Joint Ministerial media release announcing the EYQF
19 March	The Department issues FAQ guidance
20 March	United Voice distributes guidance to members on how to qualify for the EYQF, including the wage schedule, which was not released by the Department until 19 July.
28 March	1 st Internal Governance Committee meeting Items discussed include: grant funding use, equitable distribution and the meaning of ‘first in-first served’
15 April	2 nd Internal Governance Committee meeting Items discussed include the application and payment processes
18 April	In response to queries from the sector, the Department posts additional FAQs and also writes to United Voice and to all LDC services to clarify that there was no requirement of union membership for the EYQF.

Establishment of the EYQF

17 May	3 rd Internal Governance Committee meeting Items discussed include: payment, reporting and acquittal options; draft Program Guidelines; and the communication plan
24 May	EYQF Advisory Board appointed
30 May	<i>EYQF Special Account Bill</i> introduced to Parliament
6 June	1 st Advisory Board Meeting
14 June	2 nd Advisory Board Meeting
19 June	3 rd Advisory Board Meeting
25 June	4 th Internal Governance Committee meeting Items discussed include the revised Program Guidelines and the application form, employee calculator & assessment checklist
27-28 June	4 th Advisory Board Meeting
28 June	<i>EYQF Special Account Bill</i> passed by both Houses of Parliament

Application and assessment process

19 July	The Department distributes EYQF Program Guidelines to LDC services via email
23 July	11am AEST: Application process for EYQF opens as first in-first served
23 July	2pm AEST: Large provider funding pool cap reached
24 July	12 midnight (am) AEST: Small provider funding pool cap reached
27 July	List of providers finalised for approval
1-2 August	The Department sends conditional offers of funding
6 September	Funding agreements were executed with 12 providers

3 *Policy development and announcement*

There has been a growing recognition that high quality early childhood education outcomes for children require a qualified and professional ECEC workforce. One of the significant reforms of the NQF is the introduction of national qualification requirements for ECEC educators in preschool, long day care (LDC) and family day care (FDC) settings.

A key challenge for the introduction of the National Quality Framework (NQF) qualification requirements is the ECEC sector's ability to attract and retain qualified staff due to the pay and conditions in the sector. Analysis conducted by the Productivity Commission shows that on average ECEC educators earn significantly below the average hourly rate of the rest of the workforce.¹⁰ Based on these findings, the sector has renewed its claims for government support in increasing the wage rate for early childhood educators to a professional standard.

In June 2012, Prime Minister Julia Gillard met with union and childcare providers to discuss the problems facing the sector. One of the key issues raised was the unsustainably high level of early childhood educators leaving the sector because of poor wage levels. At the conclusion of that meeting, the Prime Minister committed to taking action to address these concerns.

In July 2012, United Voice, the most predominate union that operates in the sector, launched its 'Big Steps' campaign for high wages across the sector. The campaign involved a sustained period of lobbying through media campaigns, public demonstrations and conversations with members of parliament to raise public awareness of the issues facing the sector and pressure the Australian government to provide funding to support professional wages in the sector. The campaign asserted that higher wages could not be supported by providers alone but required a contribution from the government.

3.1.1 Policy announcement

On 19 March 2013, Ministers Garrett and Ellis released a joint media release announcing \$300 million for an EYQF to support the effective implementation of the NQF, including the requirement relating to educator qualification requirements commencing in 2014.

The announcement included:

- an increase wages for Certificate III qualified staff in eligible services by \$3.00 per hour from 1 July 2013 through enterprise bargaining, with proportional increases for higher qualified staff
- a requirement that providers demonstrate commitment to quality outcomes for children, including how they will meet the NQF qualification requirements
- an obligation on providers to restrain fee rise to reflect only actual increases in operational costs
- a commitment to improve fee transparency for families

¹⁰ Productivity Commission, *Early Childhood Development Workforce*, November 2011

- the establishment of an Advisory Board of experts in the sector to provide recommendations in the drafting of the guidelines for assessment.

At the same time as the announcement, the Department published FAQs on its website that provided additional detail regarding the EYQF including:

- funding would be available to all Child Care Benefit (CCB) approved LDC services.
- funding would be available to staff across the classification scale (including unqualified and non-contact staff).

The initial announcement of funding to support attracting and retaining qualified ECEC staff was welcomed by the sector. However, as the details of the EYQF became understood more broadly, it created a division of views.

- There was support for the EYQF as an important first step in the push for professional wages across the sector.

“The only way to get better conditions for early childhood educators is for tax payers to carry some of the burden of increasing wages to professional levels. This gives hope to educators that more will be done.” – union representative

- There was support for the intent of the policy, but concerns that it was implemented in an inequitable manner.
- There were views that it is the role of the Fair Work Commission to determine fair and appropriate wage rates and not the role of Government to be subsidising wages or requiring enterprise agreements.

“We operate under the Fair Work Commission schedule, we shouldn’t be required to jump through hoops and hurdles and fight other services to provide for our staff at the expense of other services.” – director of a small provider

While the announcement provided some outline of the operation of the EYQF it did not provide sufficient detail with regard to the evaluation criteria that would be used to assess applications. It was stated that this information would be contained in the guidelines to be released at a later date.

3.1.2 Policy parameters determined by the Minister and their implication

It remains unclear how the amount of \$300 million for the EYQF was determined. PwC understands that the ECEC sector was not consulted prior to announcement and documentation regarding advice from the Department to the Minister was not made available to PwC.

Based on documentation provided to PwC, there is no evidence of consideration being given to the impact on the sector regarding market distortion by having a small proportion of the sector receiving wage rises. There is also no evidence of consideration being given to the cessation of program funding in 2015. Section 7.1.2 presents a case study of potential market distortion created by the EYQF.

It is also unclear how \$3.00 per hour wage increase was determined, it was acknowledged that \$300 million would be insufficient to provide an increase in wages of \$3.00 per hour for all eligible staff in the sector. The Department advised PwC that it had developed a range of models for pay increases.

For a Certificate III qualified educator on the award wage rate of \$19.72 per hour, this equates to a 15 per cent wage increase.

The Government also determined a number of policy parameters that would guide the implementation of the EYQF. These parameters are discussed below.

Limiting access to long day care services

Limiting access to CCB approved LDC services meant that funding for wages was targeted to the largest portion of the ECEC sector. LDC services make up approximately 50 per cent of the sector.¹¹ While support is provided to the largest portion of the sector, the quantum of wage increases meant that even within the LDC sector 70 per cent of LDC educators would not benefit. This equates to 85 per cent of the entire ECEC sector not benefiting under the EYQF.

Limiting wage supplementation to LDC also ignores the needs of other ECEC services that are also experiencing workforce challenges in attracting and retaining qualified educators e.g. preschools, FDC and Outside of School Hours Care (OSHC) providers. The wage subsidy once embedded would be likely to further reduce the ability of providers in these sectors to attract and retain workers. Some providers commented that this was also particularly divisive for staff in centres that offer multiple types of services.

“During this time [i.e. delivering LDC services] you’re paid this amount, but when [delivering] OSHC, you’re only paid this – it sends a message that children are not valued equally and why would staff want to work hours in OSHC now?”

– participant at National Children’s Services Forum

Wage increases must be applied across all classifications

The \$3.00 per hour increase for Certificate III qualified was determined by the Government. This led to a number of complaints from the sector that a lower wage rate should be awarded to all LDC educators – via a campaign letter. Funding was provided on the basis that it would be provided to all classification of employees across the sector. Providing grants to subsidise wage increases for staff across the classification scale does not target funds to the lowest paid staff as funds were to be used to increase wages for all staff at a service. This includes those whose wages were already above the award rate.

Further, the increases may also not be related to the increased qualification requirements of the NQF, as grants were required to be used to fund wage increases for unqualified staff (such as non-contact staff) which are not necessarily related to the challenges of retaining ECTs.

Early in the establishment of the EYQF, the Department estimated that funding would be provided for approximately 1700 services but if wage increases were not extended to unqualified staff, the number of services to benefit could increase by around 12 per cent (i.e. an additional 204 services).

“Funding should have been targeted at [Early Childhood Teachers]. The NQF now requires us to have a qualified ECT, but they’re the hardest wages to manage within our budget without increasing fees.” – small service provider

Requirement for an enterprise agreement

Services approved for EYQF funding were required to have an enterprise agreement in place before grant funding would be released. Services without an enterprise agreement at time of submission could be conditionally approved pending wage increases being included in an enterprise agreement approved by the Fair Work Commission.

¹¹ As at September 2012 there were 615,630 children attending LDC in Australia and over a million attending across all forms of education and care. (p. 4, DEEWR submission to the House of Representatives Standing Committee on Education and Employment Inquiry into the EYQF Special Account Bill 2013).

The department reported that prior to the EYQF the proportion of LDC services covered by enterprise agreements was approximately 25 per cent. For the remaining 75 per cent of existing services that did not have an enterprise agreement, the EYQF eligibility required them to negotiate an enterprise agreement or, if they chose not to have an enterprise agreement, then that provider would be precluded from accessing the EYQF.

The department notes that prior the announcement of the EYQF, the number of enterprise agreements in the sector was approximately 100, but by the end of October 2013, this had increased to over 400 enterprise agreements.

This requirement may reduce the administration burden on the Department in ensuring that funds are used for the purpose of wage increases and this is an approach that has previously been used in the aged care sector. However, it was a cause for concern for some staff and services as it resulted in costs incurred in relation to time and resourcing for enterprise agreement negotiation. There were also reports that this requirement had provided an opportunity for some inappropriate union activity such as inappropriate contact and miscommunication.

“It cost me \$3,500 to engage a lawyer for the enterprise agreement negotiations to insert a clause for this fund.” – owner of two regional services

Minutes from the Department’s IGC show that there were legal issues discussed surrounding making enterprise agreements a requirement to be eligible for funding and that these risks were to be raised as appropriate.

The final Program Guidelines allowed services to have their EYQF application assessed before being required to submit an enterprise agreement to the Fair Work Commission.

There is evidence that the requirement to have an enterprise agreement was used by United Voice to increase its membership.

“Any enterprise agreement helps unions to sign up members, there is just no doubt about that. Every enterprise agreement we do starts off with a message to workers to join the union.” – National President, United Voice¹²

The Department advises that it monitored all media streams relevant to the EYQF and that the Big Steps Facebook page made several references to the need to join the union and get an EBA to access funding under the EYQF.

First in-first served

The policy was for the applications to be processed in the order in which they were received by the Department and that they were to be assessed until the \$300 million funding cap was reached. This ‘first in-first served’ approach placed pressure on the sector to submit their applications as soon as possible and rewarded providers who had the ability to dedicate resources to the application process from the point when guidelines were released. It also disadvantaged smaller providers who required time and additional support to understand the guidelines before determining whether or not to apply.

Minutes from the IGC indicate that one option considered was to undertake a merit-based competitive process with ‘first in-first served’ used to distinguish between two equally meritorious applications.

¹² Proof Committee Hansard, Senate Education, Employment and Workplace Relations Legislation Committee, Early Years Quality Fund Special Account Bill 2013, Friday 14 June 2013, Page 2

The final Program Guidelines set out that applications will be assessed in the order received by the Department.

Documentation regarding the decision surrounding why the first in-first served approach was used is not available to PwC.

“[First in-first served] was to the detriment of small providers who would need to spend time making the decision whether to apply. For bigger providers this was simply an operational issue with the decision making already completed.”
– peak body representative

4 Establishment of the EYQF

The formal establishment of the EYQF relates to the key tasks undertaken prior to its implementation. It involves the key steps of:

- advice provided by the Department, as recommended by the IGC
- establishing the Advisory Board
- introducing the legislation and supporting the relevant parliamentary committee inquiries
- establishing the governance and structural arrangements needed for its implementation.

4.1 Internal Governance Committee

To consider and oversee issues associated with the implementation of the EYQF and the Advisory Board, the Department established an IGC comprised of representatives from across the Department with expertise on all elements of program design.

The IGC met four times during the implementation of the EYQF and this review considered the agenda, agenda papers and minutes of those meetings, to identify the recommendations determined by the Department. Documentation of the actual advice from the Department to the Government on these matters was not made available to the review team, as it is contrary to convention to release documents recording the deliberations of a former Minister to a new Minister where there has been a change of government.

Key issues discussed by the IGC are outlined below.

Impact on sector coverage

The IGC discussed the grant funding use and its impact on sector coverage. It estimated that if the EYQF was restricted to qualified educators (to support NQF implementation) and that it would not pay for the on-costs, the EYQF could provide wage supplementation for approximately 41 per cent of the qualified educators in the LDC sector. However, if a grant covered on-costs and unqualified staff, the proportion of the sector to benefit could be as low as 29 per cent of qualified staff.¹³

The IGC recommended that unqualified staff should not be paid under the EYQF as it was not in alignment with the intent of assisting services meet NQF qualification requirements. The final Program Guidelines indicate that EYQF funding was available to all staff (not only qualified staff) and on-costs of 20 per cent.

Given the funding limitations, providing wage subsidies to all staff rather than a more targeted group seems to be an inefficient way to support the objective of the NQF to increase quality through increased qualification requirements.

¹³ Section 7 shows that the outcome of the EYQF application process would benefit only 30 per cent of all LDC staff (qualified and unqualified).

Funding of on-costs

The IGC discussed whether EYQF funding should cover on-costs associated with wage increases as there would be increased coverage if these were not included (as above). The IGC agreed that a requirement for services to cover these costs themselves may result in reduced applications and further demonstrate a commitment to quality. The IGC recommended that two options be put to the Advisory Board:

- co-contribution for on-costs based on service size
- if on-costs are to be included that these be a flat rate for efficiencies.

Advisory Board minutes show that the Board was concerned that if on-costs were not funded they may be passed onto parents through fee increases. The Board advised that the real cost to services for on-costs is a minimum of 25 per cent.

The final Program Guidelines indicate on-costs of 20 per cent were included.

Wage increases for staff already above award rate

The IGC discussed whether the EYQF should fund a flat \$3.00 per hour increase for all Certificate III educators, or whether it should provide for workers paid at minimum \$3.00 per hour above the award rate.

The difference being that those workers that were already \$3.00 per hour above the award rate would not receive a wage subsidy through the EYQF.

The minutes of the meeting note that there was 'robust discussion' of this issue, but ultimately the IGC agreed that \$3.00 per hour be paid over what is currently paid, noting that this may require applicants to provide proof of payroll information as part of the application process. The final Program Guidelines indicate payroll information was required to be provided as part of the application process.

First in-first served

The IGC noted that the use of 'first in-first served' was linked directly to the timeframe to 'get funding out the door by 1 July'. Section 4.8 of the Commonwealth Grant Guidelines state "Competitive, merit based selection processes should be used to allocate grants, unless specifically agreed otherwise by a Minister, Chief Executive or delegate. Where a method, other than a competitive merit based selection process is planned to be used agency staff should document why this approach will be used."

The IGC agreed to recommend that all applications received within the timeframe be assessed and ranked using a competitive merit-based process with time of receipt being used to differentiate between two equal applications.

The process outlined in the Program Guidelines was to assess applications that were received in time order up until the funding cap was reached. This meant that other than meeting minimum requirements, the quality of the application did not influence the decision to grant funding.

Documentation regarding the decision surrounding why the first in-first served approach was used is not available to PwC.

While the Commonwealth Grant Guidelines do not provide indicative preferred timeframes the Department has indicated that as a general rule for competitive grants processes, three to four weeks from release of Program Guidelines to application is standard.

The Program Guidelines for the EYQF were published on the Department's website on Friday 19 July 2013 at 11am providing services with only 2 working days to prepare an application.

Applications at service level or the provider level

The IGC discussed whether applications should be made at the service level or the provider level. It noted that applications at the service level would assist with equitable distribution because no one single provider with multiple services could access the EYQF for a range of services in one application.

IGC agreed that applications at the service level would provide greater equity and be more in line with the intent of the program to support NQF qualification requirements, but that it would significantly increase the number of applications received.

There was extensive discussion at Advisory Board meetings about whether applications should be required from individual services or providers. A key issue raised by the Advisory Board was the complexity associated with requiring service based applications from multi-service providers. This included that:

- not all services owned and operated by one provider would be guaranteed of securing funding and could result in different enterprise bargaining agreements being required for groups of services owned by a provider
- difficulties in including staff employed by providers deployed across multiple services
- the ability of staff in services to accurately reflect the provider's workforce development plan for the organisation
- required information to assist the application process relating to multi-services owned by providers such as payroll information, training and professional development plans, is usually centralised.

However, the Board recognised the potential for larger providers to be the main beneficiaries of the EYQF if the application process allowed a provider to apply for all services due to their ability to mobilise resources to submit applications. The Advisory Board did consider options to address the potential inequity including recommending that the funding be split into two funding pools.

The process implemented was to allow multi-service providers to lodge one application. The Department advised that this change lessened the burden on multi-service providers and the uncertainty that would have been created if some services from the same provider would have been successful and some not successful.

Distribution of funding

The IGC discussed whether funds should be quarantined for small services, and whether funds should be allocated by state, to ensure equity across jurisdictions.

The IGC recommended that the distribution of EYQF should be split by jurisdiction and then by size of services within the jurisdiction. It noted that there was accurate data to support distribution in this way.

4.2 *Advisory Board*

The appointment of members to the Advisory Board took a relatively long period of time. From the first formal announcement of the EYQF it took nine weeks for all positions on the Board to be filled.

The Department's implementation plan for the EYQF planned for the Board to be appointed on 8 April 2013 and the first Board meeting to be on 15 April. However, the Board was not appointed until 24 May 2013 and their first meeting was on 6 June 2013.

The implications of this time delay were that a number of the policy parameters relating to the EYQF had already been finalised and so were not subject to the Advisory Board's input. These included:

- the EYQF being limited to long day care providers
- applications being assessed on a 'first in first served' basis
- the requirement that wage increases be incorporated into an Enterprise Agreement or similar instrument
- the requirement that wage increases be applied across all employee classification rather than being targeted.

While the Board had some input with regard to the proposed management of the implementation of these parameters of the EYQF through the drafting of the guidelines, these parameters were maintained throughout the process, to the frustration of some members.

"We were told at the commencement of the process that a number of elements of the fund were simply not subject to change. This made our job more challenging particularly in ensuring that the fund was applied in an equitable manner."
– Advisory Board member

Composition

The composition of the Board, as determined by the Minister, was:¹⁴

- Rachel Hunter – Chair, Australian Children's Education and Care Quality Authority
- Samantha Page – CEO, Early Childhood Australia
- Michael Crosby – National President, United Voice
- Julia Davison – CEO, Goodstart Early Learning
- Tom Hardwick – CEO Guardian Childcare
- Prue Warrilow – National Convenor, Australian Community Children's Services
- Jennifer Taylor – Department of Education Employment and Workplace Relations.

Candidates were selected based on their individual expertise in the sector as opposed to being based on their capacity as a representative of relevant organisation. This distinction was made to address potential conflicts of interest that would arise for those members who were potential recipients of funding under the EYQF, and the Department reports that the intention was not to allow proxy representation. However, due to time, Board members' availability and in order to get a quorum of Board representation, the Department reported that the Minister accepted proxy representation and six out of seven members were represented by proxies at least once.

¹⁴ Minister Garrett media release 'Early years quality fund advisory board appointed' 24 May 2013

Governance charter

The Department provided the Board with a comprehensive governance charter to guide its operations. The charter included an outline of the:

- role of the Board
- responsibilities of the chair, Advisory Board members and the secretariat
- dispute resolution mechanism
- process for managing conflicts of interest
- confidentiality requirements.

Conflicts of interest: actual & perceived

Conflicts of interest, both actual and perceived, were a prominent area of discussion by the Board. All Board members understood the potential conflict of interest that existed between their role as Advisory Board members and their respective roles within their organisations. This was most prominent amongst members who represented potential applicants under the EYQF.

Minutes from Advisory Board meetings indicate that members were aware of potential for conflict of interest issues and in particular the issue of Members assisting in the preparation of applications before the opening date of the EYQF and the appropriate use of information gained from participation in meetings. The Department also acknowledged this as a potential issue and procured a probity adviser to assist. The probity officer played an active part in resolving potential issues as they arose. This included explaining at the initial Board meeting their obligations. Regardless of these measures, it seems unlikely that this will alleviate the perceptions regarding bias, particularly as of the three large providers that were given conditional offers of funding, two of those had representatives on the Board.

Members were also asked to sign a registry detailing any potential and actual conflicts of interests. All members participated in this process and believed it was a transparent and fair method of ensuring adequate disclosure of conflicts.

A member of the Board, whose service was applying for funding, offered her resignation from the Board the day before applications opened. The Department reports that it advised that the resignation needed to be made to the Minister rather than the Department as the appointment was made at that level. It is unclear whether the member offered the resignation to the Minister.

Perceptions of conflict were expressed by providers in the sector. Many perceived the inclusion of providers onto the Board as unjust and unfair and believed that the guidelines and funding process was manipulated to their benefit. However, no evidence has been presented to this review to substantiate such a perception. Regardless, it seems unlikely that this will alleviate the perceptions regarding bias held by some in the sector, including because of the three large providers that were given conditional offers of funding, two of those had representatives on the Board.

“The members of the Board had an obvious conflict of interest that provided them with an unfair advantage in submitting an application within the timeframes.”

– senior representative of a provider

Confidentiality Restrictions

A condition of Board memberships was that all members agree to a confidentiality agreement with the Department. The confidentiality agreement placed significant obligations on Board members not to discuss issues related to their role as Board members outside of the formal Board meetings. All members agreed to these conditions.

Most Board members found complying with these agreements onerous but in hindsight a necessary part of the process.

“Confidentiality restrictions were extremely stringent to the point of being intrusive. However looking back they were probably appropriate.”
– Advisory Board member

Advisory Board members found the requirements stringent both in terms of not making comments on the public record and in terms of discussions within their work organisation. In exercising their obligations members chose to enforce strict restrictions on discussions that were conducted in their workplace and excluded themselves from discussions that would conflict with their agreement. All members believed that they were able to comply with the obligations under the agreement.

Role and influence of the Board

The changing role of the Board in the development and implementation of the EYQF was an issue raised by Advisory Board members. The role of the Board was specified in a number of key documents including in the Board’s governance charter, the terms of reference and the media release issued by the Department. According to the governance charter the role of the Board was to provide advice to the Department on the content and operation of the Program Guidelines for the EYQF, including:

- eligibility criteria
- equitable funding distribution
- conditionality of funding
- application and assessment process
- monitoring and reporting to ensure transparency and compliance, and
- engagement and communication with the sector.

According to the Board, the role of members was to advise on the development of the guidelines that would be used for the application process and to provide specialist advice and support to the Department where required. Initially many members found it challenging to separate their roles as independent members of the Board providing advice to the Department in relation to the early childhood matters from their role as being a representative of their respective organisations. Discussions with Advisory Board members indicate that this remained a challenge for many members throughout the process. The Advisory Board minutes indicate that the external probity officer provided advice to members regarding how this could be managed. All members chose to deal with this issue within their own organisation with many explaining directly to their organisational boards of the distinction of their roles and their inability to comment on discussions within the Board.

Many Board members argued that whilst the intention was for the Board to have a significant degree of influence during the process this waned over time. Members commented that in practice they had very little influence over the process and that in many instances decisions had already been made.

“The process was commonly frustrated by the fact that decisions had already been made that we were not privy to.” – Advisory Board member

Based on the information provided, it would appear that overall the Board did have an impact on the development of the EYQF. Draft versions of the guidelines indicate that edits made by the Board were incorporated into the guidelines and the Board had a significant impact on the decision to distribute funding evenly between large and smaller providers.

Impact of the Board

The documentation provided by the Department indicates that the Board has significant impact in the development of the EYQF in a number of key areas as outlined below.

Enterprise agreements

One of the parameters that Advisory Board was required to work within when advising on the Program Guidelines was the requirement for an enterprise agreement. The aim was to ensure that the funding was allocated to wages for staff, and not other purposes. Minutes and drafting notes indicate that the Board ensured that this requirement could be met using other industrial instruments that had the same effect. The Advisory Board also recommended that the requirements should be relaxed to the extent that applicants need not have an enterprise agreement at the time of the application, but must provide evidence of intent to do so. The final Program Guidelines allow for applications to be submitted without an Enterprise Agreement.

Funding distribution

Discussions with the Board and the minutes of meetings illustrate that the Board had a role in deciding on the allocation of the funding pools for larger and smaller providers. Information provided indicates that this decision was driven by equity concerns that given the requirement of a first in first served basis there was a strong likelihood that the funding would be largely exhausted by large providers. Therefore, there was recommendation proposed by the Board to divide the funding allocation.

The original approach discussed by the Board was a service by service process to promote equitable distribution. The Department reports that several members of the Advisory Board considered service by service applications would mean multiple applications from the same providers with a significant risk that only a proportion would be funded.

The Advisory Board did consider options to address the potential inequity including recommending that the funding be split into two funding pools. The final Program Guidelines indicate that:

- 50 per cent of the total funds were allocated for large providers, which represent 19 per cent of the sector¹⁵
- the other 50 per cent of the total funds were allocated for small providers which represent 81 per cent of the sector¹⁶.

It was acknowledged that 50 per cent of funding ensured the EYQF was available to small providers but the split demonstrates that it was not allocated equally based on their representative size. Minutes from an Advisory Board meeting show that the Board considered splitting the pools into amounts that were more aligned to their representation of the sector i.e. 19 per of the pool (\$57 million) should be allocated for larger providers. However, the Department reports that this was not supported by the Board as they recognised that \$57 million was not sufficient to fund an application from the largest service provider.

¹⁵ As reported by the Department, based on number of services.

¹⁶ *ibid*

Evaluation criteria

Minutes and drafting notes illustrate that the Advisory Board had a significant impact in the development and finalisation of the evaluation criteria that were used to assess the application process. Those criteria recommended by the Board were adopted almost in their entirety in the Program Guidelines.

4.2.1 Introduction of legislation and Committee inquiries

On the 30 May 2013 the *Early Years Quality Fund Special Account Bill* was introduced into the House of Representatives by the then Minister for School Education, Early Childhood and Youth Peter Garrett. In his speech commending the Bill to the House, Minister Garrett outlined that the Bill acknowledges that the commitment of child care educators by securing for these educators the necessary recognition of their professionalism and to reward them accordingly with higher wages.

In May 2013, both the House of Representatives and the Senate submitted the *Early Years Quality Fund Special Account Bill 2013* to their respective Committees, the House of Representatives Education and Employment Committee and the Senate Education, Employment and Workplace Relations Committee for inquiry and report. Interested parties were provided the opportunity to make a submission to the Committee. A public hearing was also conducted with representation from United Voice, Independent Education Union, Australian Childcare Alliance, Child Care Centres Association of Victoria and the Department.

Submissions provided to both Inquiries were diverse, covering a range of interested parties including long day care centres, individual early childhood educators, unions, and industry associations. While a diverse range of parties responded to the Inquiry, a number of common issues were raised in relation to the establishment and the implementation of the EYQF.

Inadequacy of funding

Almost all submissions referred to the fact that the EYQF will only be provided to 40 per cent of the sector. This figure did not take into account decisions such as the inclusion of on-costs and wages for non-qualified staff which impacted on the final amount of funding distributed and estimates suggest that only 30 per cent of the LDC workforce would benefit under the EYQF.

While recognising that that the program was a first step towards professional wages for the sector the implications of a proportion of the workforce not receiving a pay increase was seen by many as divisive. Comments were also made about the inequality of the scenario of having early child care educators doing the same job but some being paid less than their counterpart because the centre missed out on funding. This was the most common area of concern raised by parties who made submissions to the Inquiry.

Temporary funding arrangement

Submissions to the Inquiry also raised issue with the temporary nature of the funding arrangement. At the time, the proposed funding was only sufficient to provide increased wages for two years. Submissions to the Inquiry questioned what the outcome would be in two years times when the funding lapsed and whether the higher wage levels would be sustained.

Eligibility

A smaller proportion of submissions argued that restricting eligibility for funding to only long day care providers was not a fair outcome. The argument was that all providers (e.g. FDC providers), must submit to the same requirements and standards under the NQF, and if the funding was established to assist providers in meeting these standards, then all providers should be potentially eligible for funding.

Composition of the Advisory Board

Commentary was also made in the submissions on the composition of the Advisory Board. A number of submissions raised an issue of the inclusion of representatives of two large providers on the Board. It was argued that this raised a conflict of interest and that these providers may be able to influence the process. Some submissions also raised the issue that there was insufficient representation of small providers on the Board.

First in first served implications

A small proportion of parties also raised an issue regarding the selection process being conducted on a 'first in-first served' basis. It was argued that this would lead to larger providers taking a larger than proportional share of the funding available to the detriment of smaller providers.

The final report of the House of Representatives Committee acknowledged the concerns existing within the sector that the limited funds available in the scheme will lead to some pay disparity. However the Committee believed that the EYQF was an important first step in working towards improved wages within the early childhood sector. The Committee also acknowledged stakeholder concerns regarding the two year life span of the EYQF and its associated remuneration benefits to workers in the sector. The Committee, however, believed that the establishment of the pay equity unit in the Fair Work Commission provided a forum through which these concerns could be pursued at a future date.

The final report from the Senate Committee noted these concerns but supported the Bill in its current form. The Committee expressed its satisfaction that the governance arrangements for the Advisory Board were appropriate with the administration of the funds being undertaken by the Department. In addition the Committee expressed its confidence that the Department would ensure that timely and accurate information would be provided to the sector.

In its final conclusion, the Committee maintained that the Bill would improve the wages for early childhood educators and help providers attract and retain people to the sector. The Committee also concluded that the EYQF will support the Governments broader objective of ensuring a high quality standard of education and care for Australian children.

The *EYQF Special Account Bill* was passed by both Houses of Parliament on 28 June 2013.

5 *Communication with the sector*

As the timeline outlined earlier highlights, there was a significant gap between the announcement of the creation of the EYQF and the issuing of the Program Guidelines to the sector. Based on our consultations this caused anxiety and confusion within the sector, specifically related to the eligibility criteria and requirements of the application process.

5.1 Experience of the sector

The time taken to settle the detail of the policy of the EYQF meant that little information could be released by the Department in the period between when the policy was announced and when the Program Guidelines were released. This heightened the level of confusion and provided the opportunity for instances of misinformation.

5.1.1 Misinformation

A consistent message from consultations was that the union was providing the sector with information that was not consistent with information being issued through the Department.

Wages schedule

Providers reported being shown an as yet unapproved and unpublished schedule of wage rates and told to include these in their enterprise agreement. Providers were unable to confirm the accuracy of the schedule until the Program Guidelines were issued on 19 July 2013.

It is important to note that the Program Guidelines allowed for applicants to either have an enterprise agreement with the approved wages schedule or a commitment to have this in place before receiving funding. However, given the timeframe between the release of the Program Guidelines (which contained the approved wages schedule) and the applications opening was only two working days, it would be unlikely that an applicant would have met this condition. Therefore, it is unclear why United Voice was promoting a wages schedule and negotiating enterprise agreements prior to the opening of the application process.

Union membership as a requirement for funding

Despite the Department's FAQs clearly stating that union membership was not a requirement for EYQF eligibility, a United Voice newsletter for members in Queensland (dated 20 March 2013) explained the process for qualifying for EYQF as follows:¹⁷

- 1 A clear majority of workers join United Voice
- 2 United Voice negotiates a new enterprise bargaining agreement
- 3 Owner/Operator signs agreement with government
- 4 New funding flows, workers get raise.

¹⁷ United Voice, Union News, The state magazine for United Voice Queensland members (20 March 2013)

“The union advised in our meeting that an [enterprise agreement] is required and that 60% of the staff of our centre needed to be members of United Voice for our Centre to qualify for funding.” – CEO of a small provider

“Staff reported being told by union reps that unless they joined [the union] they wouldn’t get EYQF funding and they’re letting down everyone else at their centre.”
– centre director of a multi-location service provider

Peak bodies also reported staff at member service providers being phoned inappropriately at home late at night by union representatives.

“This caused distressed and angst, and disruption within our workplaces.”
– participant at the National Children’s Services Forum

Similar instances of miscommunication by union representatives have been reported across the sector. We note that United Voice has indicated that this was not done with the consent of union leadership, and that steps have been taken to address union organisers that misled workers.

In its submissions to the parliamentary inquiries for the EYQF Special Account Bill, the Department made available letters it sent to United Voice and to every eligible applicant. The Department advised PwC that the letter was in response to a number of complaints concerning information being provided by United Voice. The Department also reported to PwC that one of the complaints involved a director of a service who contacted the EYQF Call Centre and was quite distressed by a statement alleged to have been made by a union official saying that a majority of employees had to be members of the union in order to receive funding and that he was willing to pay the union membership fees for all his staff in order to be eligible.

At the Senate Committee Inquiry, United Voice was asked by the Chair to respond to criticisms that the EYQF provided an exercise for union recruitment. Michael Crosby (National President, United Voice) responded:

‘Any enterprise agreement helps unions to sign up members, there is just no doubt about that. Every enterprise agreement we do starts off with a message to workers to join the union. We get our credibility, we get the money to do our job and we get the ability to bargain on behalf of the group of workers on the basis of ‘Do we represent a majority of the workers or not?’. I heard this attack, and I saw it in *The Australian* yesterday, that we are using this to sign up workers. Of course we are. We have signed up workers all the way through the Big Steps campaign.

[...]

Yes, it is true: we want to be a powerful union in this sector. At the moment we represent around 30 per cent of the total workforce. Obviously, we want to represent at least double that, and represent a majority of the educators in the sector. We are on a path to doing that. But to criticise us for actually doing our job as a union and giving voice to workers—I just do not get that.¹⁸

5.1.2 Lack of information from the Department

There was a clear lack of information provided by the Department to the sector from the announcement of the EYQF to the issuing of the guidelines. This was due to the fact that

¹⁸ Proof Committee Hansard, Senate Education, Employment and Workplace Relations Legislation Committee, Early Years Quality Fund Special Account Bill 2013, Friday 14 June 2013, Page 2

there were few developments that could be communicated, as it took two months to establish the Advisory Board and then discussions at the Advisory Board level were confidential.

During this process the Department did remain accessible to the sector for any questions that they had. While providers expressed frustration at the lack of information provided by the Department there was consensus that the Department was transparent in sharing any information they were able to share and in providing answers to queries where possible.

A number of providers reported that this gap in information was filled by the union. As discussed previously this was both a positive and negative experience. While some providers reported receiving misinformation and inappropriate contact, others found union involvement extremely useful in navigating the uncertainty. These providers worked with the union to develop their enterprise agreements and felt better prepared for the application process when it did commence.

5.1.3 Impact

The issue of misinformation related to the requirements of the enterprise agreement and had a significant impact on a number of providers in the sector. From the consultation process, some providers believed that the process led to a significant deterioration of their relationship with the union. The confusion and angst caused by the misinformation generated a sense of hostility towards the unions by some providers, but also by some employees who believed they had been misled.

It should be noted that this was not the experience of all providers. Many expressed their appreciation for the union's involvement in navigating the uncertainty caused by the lack of information.

5.2 Issuing of guidelines

The issuing of the guidelines was conducted swiftly. The Program Guidelines for the EYQF were published on the Department's website on Friday 19 July 2013 at 11am. LDC providers and Advisory Board members were advised via email that the Program Guidelines were going to be released that morning and that applications would open from 11am on 23 July 2013.

While the Commonwealth Grant Guidelines do not mandate appropriate timeframes it would be fair to say that as a general rule for competitive grants processes, four weeks from release of Program Guidelines to application submission date is fairly standard.

The Program Guidelines were published on the Department's website on Friday 19 July 2013 at 11am providing services with only two working days to prepare an application. Providers were also advised via email that Program Guidelines were available and the opening date and time.

The Department has advised that indicative timeframes for grant programs are generally three to four weeks from release or publication date to application submission date.

Given that funding was to be provided on a 'first in-first served' basis it became critical that providers get across the detail of the guidelines and application process. Further information in relation to the calculation of wage rates was provided the day before applications opened.

The Department provided a telephone line for questions and also an email database where issues could be reported. The documentation provided to this review demonstrates that a large number of questions were raised during this period. While the Department provided resources to deal with these questions, according to LDC services many responses came too late to be effective given the tight timeframes and substantial requirements of the application process.

6 Application and assessment process

Overall, the application and assessment process appeared to be conducted in an effective and appropriate manner by the Department given the constraints of the policy parameters including the timing requirement. However, PwC notes that the ‘first in-first served’ parameter required under the assessment process may have impacted the implementation of the EYQF. This parameter did not appear to align with the policy objectives of the EYQF – to assist services providers to offer higher wages consistent with changes in staff-to-child ratios and the increased qualification requirements of the NQF.¹⁹

6.1.1 Application process

The application process for the EYQF opened at 11am AEST on Tuesday 23 July 2013. The process required applicants to complete forms online that required information on the following elements:

- service details
- completed employee hours and grants calculator
- current workforce development plan
- most recent payroll for all current staff, demonstrating current hourly rates for all staff for which grants funding was being sought
- evidence demonstrating commitment from employees to supporting the NQF.

6.1.2 Best practice according to the Commonwealth Grant Guidelines (CGGs)

To assess whether the application process was appropriate, PwC refers to the CGGs:

8.5 It is important that agency staff develop clear, consistent and well-documented grant guidelines and other related documentation. Agency staff should consider that a single reference source for policy guidance and other documentation (for example, administrative procedures, eligibility and assessment criteria appraisal processes, monitoring requirements, evaluation strategies and standard forms) helps to ensure consistent and efficient grants administration.

8.7 Agency staff must ensure that any suite of documents that form the grant guidelines for any granting activity are consistent with the CGGs.

- *Agency staff should ensure that the rules of granting activities are simply expressed, are clear in their intent and are effectively communicated to stakeholders. Agency staff should consider testing the clarity of grant guidelines with stakeholders prior to their release.*
- *Potential grant applicants need access to adequate information to enable them to submit a grant application. Application documentation, developed*

¹⁹ Source: EYQF program guidelines

by agency staff, should contain clear eligibility and assessment criteria to enable the selection of applications in a consistent, transparent and accountable manner. The design of the application form should assist applicants to provide information in respect of all selection criteria.

- *Application forms and associated information should be easy to understand and provide all necessary information. Guidance should include contact points and details for further information, application forms and other information. Prompt action should be taken to update websites and other sources of public information following changes to granting activities (including grant programs).*
- *Eligibility criteria, prepared by agency staff, should be straightforward, easily understood and effectively communicated to potential applicants. This helps avoid frustration and potential costs to applicants associated with developing and submitting applications that are not eligible or that have little chance of success.*
- *The information supplied with application forms should include: a statement of the granting activity objectives; the information required to assess the application; the appraisal criteria to be used when assessing applications for approval and their relative importance; and information about the approval process itself (including the closing date for applications and likely decision dates, if applicable; an outline of the selection process including who will be responsible for making the final recommendations and approval decisions; requirements to ensure the provision of performance information; a description of complaint handling, appeal, review and/or FOI mechanisms; and reporting and acquittal requirements).*
- *Agency staff should ensure that grant guidelines clearly inform potential grant recipients of terms and conditions that recipients will need to meet during the life of the grant, such as financial and performance reporting. The proposed grant agreement should be included with the grant guidelines so that grant applicants can consider this at the time that they are considering applying for a grant.*
- *Timely appraisal avoids possible inequities and waste that may arise through unnecessary delay.²⁰*

Based on information provided by the Department and information from consultations, the application process generally appears to have:

- provided the sector with consistent and appropriate materials to complete the application – service providers reported that the application form was reasonable in terms of the information requested and understood the eligibility criteria
- provided applicants with the objective of the EYQF
- reflected the set policy parameters– for example the requirement for an enterprise agreement or to be working towards one.

However, consultation with services suggests there may not have been consistent interpretation of the requirement to demonstrate commitment towards the NQF. This may

²⁰ Source: Commonwealth Grant Guidelines, Second Edition, June 2013

have resulted from the Program Guidelines being unclear and the timeframe preventing providers from seeking clarification from the Department as providers had three days to understand the application requirements and compile the required information before the application process opened.

“It is difficult to understand how any provider could have completed an application so early. Demonstrating progression towards the NQF was incredibly resource intensive.” – a service provider

The ‘first in-first served’ approach to assessing applications does not directly align with PwC’s understanding of the purpose of the EYQF – to assist services providers to offer higher wages consistent with changes in staff-to-child ratios and the increased qualification requirements of the NQF. This aspect of the application process served to:

- favour service providers who were better resourced and could therefore devote staff time and resources to completing the applications in a timely manner – this was exacerbated by the requirement for accurate applications as errors meant applications needed to be resubmitted and were therefore sent to the back of the queue
- favour service providers who were more advanced in meeting the NQF and therefore had many of the required application materials ready and on hand
- disadvantage smaller service providers who found it costly to collate information required to complete the application forms – some services noted that they needed to take staff off the floor to submit the application at 11am and this time did not coincide with break-times

“[First in first served] was to the detriment of small providers who would need to spend time making the decision whether to apply. For bigger providers this was simply an operational issue with the decision making already completed.”
– Peak body representative

- disadvantage medium sized providers who may operate enough services such that the information that needed to be collated was complex, but did not have the dedicated administrative resources of larger service providers.

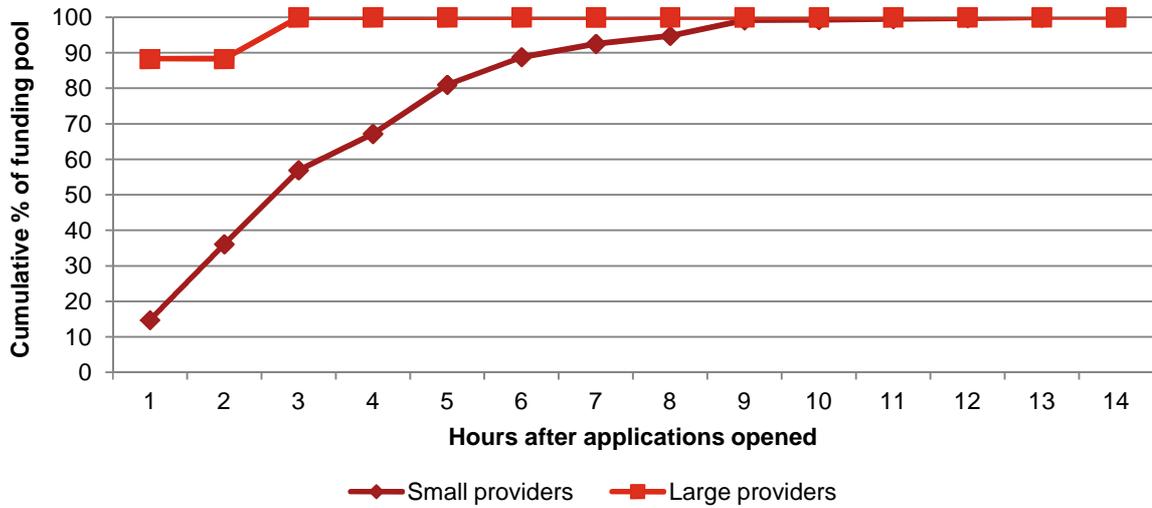
“Our centre devoted a significant amount of staff hours to compiling our response to this application given that we operate multiple centres, this made it difficult to submit our application within the short time frames.”
– senior representative of a large provider

‘First in-first served’ prevents the assessment of applications on the level of quality or the level of need. The implications of the ‘first in-first served’ aspect of the application process are particularly concerning given the speed at which the total pool of funding was exhausted (see Figure 1 and Table 1).

PwC analysis of the data shows that:

- there were a total of 453 applications that met the assessment criteria
- the funding cap of \$300 million was reached within 13 hours of the application process opening (a total of \$297.4 million was allocated to applications that met the assessment criteria, after adjustments and corrections)
- over 80 per cent of the funding for large providers was exhausted within the first hour due to an application from the largest service provider
- over 80 per cent of the funding pool for small providers was exhausted within five hours of applications opening.

Figure 1: Applications that met the assessment criteria – cumulative percentage of total funding pool



Source: EYQF application data provided by the Department

Table 1: Applications that met the assessment criteria – time of submission

Within X hours of opening	Large providers			Small providers		
	Funding amount (\$)	Applicants	Cumulative % of total funding	Funding amount (\$)	Applicants	Cumulative % of total funding
1	132,186,695	1	88.3	21,760,586	72	14.7
2	0	0	88.3	31,552,519	120	36.1
3	17,565,660	2	100.0	30,715,764	94	56.9
4	0	0	100.0	15,130,308	42	67.2
5	0	0	100.0	20,444,548	52	81.0
6	0	0	100.0	11,468,600	25	88.8
7	0	0	100.0	5,533,553	17	92.5
8	0	0	100.0	3,246,930	10	94.7
9	0	0	100.0	6,547,296	12	99.2
10	0	0	100.0	161,186	1	99.3
11	0	0	100.0	369,833	2	99.5
12	0	0	100.0	323,458	2	99.7
13	0	0	100.0	373,563	1	100.0
Total	149,752,355	3		147,628,145	450	

Source: EYQF application data provided by the Department

6.1.3 Assessment process

The process involved the assessment of received EYQF applications against criteria outlined in the Program Guidelines. As discussed, applications were assessed on a 'first in-first served' basis, such that applications received after the \$300 million funding cap was reached were not assessed. These guidelines were developed in conjunction with application forms and guidelines.

Tight timeframes were imposed on the assessment team. Applications opened at 11am AEST on Tuesday 23 July 2013, and assessments were undertaken until the total of approved applications reached the \$300 million funding cap, which was on Friday 26 July 2013.

The Department recruited external staff to assist internal Departmental staff with the assessment process to ensure it could be completed within the tight timeframe. According to the Department, there were nine internal staff members and 13 external staff members assessing the applications.²¹ External staff were trained by experienced staff from the Department over the course of one day.

Based on PwC's understanding of the assessment process and on evidence gathered from consultations with internal Departmental assessors, the assessment process appeared to:

- be 'objective' – the assessment of applications was based on discrete criteria with limited subjectivity which limited the risk of inconsistent assessments. For example, assessors were asked to determine whether an applicant was CCB approved.
- have sufficient quality assurance measures to mitigate the risk of inaccurate assessments, while using external staff to assess applications may appear risky and error prone, PwC notes that the Department attempted to mitigate the risk of assessment errors by:
 - conducting quality assurance on 20 per cent of applications²²
 - allocating more complex applications to more experienced internal assessors
 - providing avenues for external staff to check applications with more experienced staff.

Despite the completion of the assessment process in the short timeframe, no evidence has been presented that suggests this impacted on the assessment of received applications.

²¹ Consultation with assessors from the Department

²² *ibid*

7 *Outcomes of EYQF grants process*

The distribution of providers that were given conditional offers of funding is an important outcome of the implementation process of the EYQF. Analysis of this distribution is necessary to determine the extent to which the implementation process was successful in achieving the stated policy outcomes.

PwC has examined the distribution of funding with regard to:

- whether applicants were already meeting the staff qualification requirements
- whether applicants indicated they require an ECT
- the geographic distribution, as PwC understands that the greatest need for support exists in services located in regional and remote locations.

As of 25 September 2013, 1,027 unique applications were submitted by LDC providers.

- 453 letters of offer for conditional funding were sent between 26 July and 2 August 2013.
- 12 Funding Agreements were signed and executed on 6 September 2013.
- Of the remaining 574 applications, 29 were assessed as non-compliant.
- Therefore, there are 545 eligible and compliant applicants that were not given conditional offers of funding for the \$300 million pool.

The Program Guidelines state that advice would be provided to the sector as soon as possible when the funding cap had been reached. Documentation provided by the Department included a statement for public release that was drafted regarding the funding cap. However, this statement was not released and resulted in applications continuing to be received after 26 July 2013 when it was known that the cap had been reached.

PwC notes that Federal election caretaker period commenced on 5 August 2013.

7.1.1 Analysis of the distribution of funding

PwC analysed data provided by the Department on those providers whose applications met the assessment criteria. A total of \$297.4 million was allocated to providers.

As shown in Table 2 below, 20.3 per cent of LDC services would benefit under the EYQF. These services represent 30.5 per cent of the total LDC workforce and 16 per cent of the total ECEC workforce.

Table 2: Coverage of the sector

	Number of services	Number of staff
Providers with conditional offers	1,257	23,966
Total LDC sector	6,192	78,647
% of total LDC sector	20.3%	30.5%
Total ECEC sector	N/A	150,000
% of total ECEC sector	-	16%

Source: EYQF application data provided by the Department, estimates of total LDC and ECEC sector sectors & staff provided by the Department, PwC analysis

One grant of \$132.2 million was allocated all Goodstart service providers. This accounts for 44.5 per cent of the total funding pool and 88.1 per cent of the amount allocated to the large provider pool.

Distribution to services by progress towards meeting the qualification requirements

The EYQF is intended to support increased wages in the sector which is recognised as one of the key challenges for implemented the NQF qualification requirements.

Based on data application data provided by the Department, it appears that a large proportion of providers that were given conditional offers of funding are already meeting the qualification requirements (Table 3):

- 35 per cent of services declared that they were currently meeting the qualification requirements
- a significantly lower proportion of services from large providers (10 per cent) believed they were currently meeting the qualification requirements
- 67 per cent of services from small providers declared they were currently meeting the qualification requirements.

Table 3: Applications that met the assessment criteria – progress towards meeting the qualification requirements

Provider type	Services Declared Meeting	Services Declared Not Meeting	Services Undeclared	Total services	Services Declared Meeting (%)	Services Declared Not Meeting (%)	Services Undeclared (%)
Large	73	630	0	703	10.4	89.6	0.0
Small	369	147	38	554	66.6	26.5	6.9
Total	442	777	38	1,257	35.2	61.8	3.0

Source: EYQF application data provided by the Department, PwC analysis

Distribution of funding by staff qualifications

It is understood that services may be finding it difficult to meet the NQF qualification requirements in particular recruiting and retaining higher qualified staff such as ECTs. Based on the distribution of approved applications, there appears to be some evidence that a large proportion of funding has been allocated to services that do not require support to obtaining an ECT (Table 4):

- 11.6 per cent of applications that met the assessment criteria identified a requirement for an ECT
- 0.7 per cent of applications from large providers that met the assessment criteria identified a requirement for an ECT
- 25.5 per cent of small provider services that met the assessment criteria identified a requirement for an ECT.

Table 4: Applications that met the assessment criteria – services requiring an ECT

Provider type	Services identified ECT required	Total services	% of total services
Large	5	703	0.7
Small	141	554	25.5
Total	146	1,257	11.6

Source: EYQF application data provided by the Department, PwC analysis

The results outlined in Table 4 might suggest that small provider services may on average require a higher funding amount per staff member to address the greater need for ECTs. However, the data shows that they receive less funding per staff member in comparison to large provider services (Table 5).

Table 5: Applications that met the assessment criteria – funding per staff

Provider Type	Staff	Funding (\$)	Per staff
Large	10,862	149,752,355	13,787
Small	13,104	147,628,145	11,266
Total	23,966	297,380,500	12,408

Source: EYQF application data provided by the Department, PwC analysis

Geographic distribution of applications that met the assessment criteria

ECEC services in rural and remote areas face specific challenges in meeting the NQF qualification requirements in regards to how access to training and development and affordable accommodation impact upon the pay and conditions available.

The distribution of applications that met the assessment criteria by remoteness level is largely consistent with the distribution of LDC services to those areas (see Table 6).

It should be noted that for the purposes of analysis in this section, the application from Goodstart was broken down by service to provide a more detailed estimate of distribution.²³

Table 6: Applications that met the assessment criteria – remoteness level

	Funding amount approved (\$)	% of EYQF funding	% of LDC services (2010 Census)	Difference
Major Cities of Australia	221,249,608	74.4	73.0	1.4
Inner Regional Australia	49,655,253	16.7	17.3	-0.6
Outer Regional Australia	23,791,103	8.0	8.0	0.0
Remote and Very Remote Australia	773,838	0.3	1.7	-1.4
#N/A	1,910,698	0.6	0.0	0.6
Total	297,380,499	100	100	

Source: EYQF application data provided by the Department, 2010 ECEC Workforce Census

²³ Funding for each Goodstart service was not available at the time of this Review and was estimated based on the information provided in Goodstart's application.

New South Wales has significantly lower proportion of applications that met the assessment criteria relative to its overall share of the number of services – this is largely the result of much of the funding being allocated to Goodstart which has relatively fewer services in New South Wales (see Table 7).

Table 7: Applications that met the assessment criteria – jurisdiction

	Funding amount approved (\$)	% of EYQF funding	% of LDC services (2010 Census)	Difference
NSW	71,071,153	23.9	41.3	-17.4
VIC	72,675,388	24.4	18.0	6.4
QLD	85,691,967	28.8	21.9	6.9
SA	32,608,209	11.0	5.2	5.7
WA	16,645,504	5.6	8.5	-2.9
TAS	7,705,277	2.6	1.7	0.9
NT	4,377,401	1.5	1.2	0.2
ACT	6,605,601	2.2	2.1	0.2
Total	297,380,499	100	100	

Source: EYQF application data provided by the Department, 2010 ECEC Workforce Census

Funding distribution conclusion

The results from the data analysis provide initial evidence to suggest the implementation process may not have been successful in achieving the stated policy outcomes. More specifically, the data shows that EYQF funding may not have been distributed to where it is most needed.

PwC has not conducted a full analysis of funding outcomes due to data constraints. However, it is recommended that further analysis be conducted to develop a more conclusive representation of the outcomes of the EYQF implementation including:

- whether applications that met the assessment criteria requested funding for staff with Certificate III qualifications or above as required under the NQF qualification requirements
- whether applications that met the assessment criteria requested funding for staff that are already being paid wages above the award, as this could be used as an indication of level of need.

7.1.2 A case study of potential for market distortion

PwC recognises the potential market distortions which could be created by the implementation of the policy. This has become apparent from reviewing the implementation of the EYQF and through discussions with a range of stakeholders. The following case study has been developed to examine the potential distortionary effects of the EYQF implementation.

Figure 2: Market distortion case study

Assume there are five LDC services in an area where only one service receives EYQF funding.

Scenario one – services who do not receive funding cannot lift wages

When Service A obtains additional funding for wages:

- Staff in the other four services will be enticed by the higher wages offered by Service A
- Service A attracts more experienced and qualified staff for each position
- Staff that miss out on these positions will find jobs at the other service - or they could leave sector entirely
- There may be increased demand at Service A as families prefer the service with higher quality staff
- Increased demand for Service A could then lead to fee increases at Service A
- Families that struggle to afford the increased fees send children to centre with less experienced and qualified staff

Result: a two tier system where more qualified staff are concentrated in services with EYQF funding

Scenario two – services who do not receive funding can lift wages

When one service obtains additional funding for wages:

- educators at the other four services may be enticed by the higher wages offered by Service A
- Service A attracts more experienced and qualified staff for each position
- other services react by raising their wage levels to retain staff
- these services may need to raise fees to pay for higher wages
- demand for these services who have raised fees declines
- service utilisation for these services declines

Result: higher parental fees and lower utilisation of ECEC services

Potential outcomes of scenarios

In both scenarios, a temporary distortion is created in the labour market before the effects of the policy flow through to the market for ECEC services. The outcome will depend on whether the other four services have the ability to increase the wages of their staff.

Where services who do not receive EYQF assistance cannot raise wages, a two tier system where more qualified staff are concentrated in services with EYQF funding may arise. Where services who do not receive EYQF assistance can raise wages, higher parental fees and lower utilisation of ECEC services may arise. Any distortions that do arise would be amplified in areas with fewer services.

Indeed there are a number of assumptions which underpin the outcome for each scenario such as the elasticity of demand for ECEC services (which determines whether increasing fees will result in lower utilisation) and also the costs associated with moving services as an educator. Nevertheless, the market distortion analysis highlights the potential implications of the implementation of the EYQF policy on the ECEC sector.

This issue of market distortion was discussed at the Senate Inquiry for the EYQF Special Account Bill. The representative for United Voice stated:

‘The reason we were keen on the government’s proposal to say that it goes to a segment of the sector, is that it provides a shock to the sector. Between \$3 and \$5, depending on classification, is a big increase all at one time. It means that for 40 per

cent of the sector suddenly sit up and take notice and say, 'Maybe we could stay in this sector and earn a decent living. Maybe, to get a mortgage, I do not have to go and do a different job.' So we at least get part of the sector coming to the idea that it is possible to make a career out of this occupation of educator.

The other thing, of course, that is important for us as a union is that we are going to lodge an equal-pay application with the Fair Work Tribunal. Work is in train on that at the moment. It means that we go to the tribunal with part of the sector already being paid some part of professional wages. It helps our case to be able to say that the tribunal at the very least ought to make an order that extends that to the whole sector.'²⁴

²⁴ Proof Committee Hansard, Senate Education, Employment and Workplace Relations Legislation Committee, Early Years Quality Fund Special Account Bill 2013, Friday 14 June 2013, Page 2

Appendix A List of stakeholder consultations

PwC consulted with a range of stakeholders for this Review including:

- representatives from 14 service providers
- all members of the EYQF Advisory Board
- 14 peak body representatives (see Table 8)
- Departmental staff who administered the EYQF including the application assessors.

Table 8: Peak body organisations

Organisation	Date
Australian Childcare Alliance	21-Oct
Early Childhood Australia, Lady Gowrie	21-Oct
Australian Community Children's Services	21-Oct
Family Day Care Australia	21-Oct
National Association of Mobile Services for Rural and Remote Families and Children	21-Oct
National Disability Alliance in Children's Services	21-Oct
SDN Children's Services	21-Oct
National In-Home Childcare Association	21-Oct
National Out of School Hours Services Association	21-Oct
Playgroup Australia	21-Oct
Secretariat of National Aboriginal and Islander Child Care	21-Oct

