

Government allowed private organisation to hand out more than half a billion dollars of public money



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Highlight: A childcare operator was given the power to allocate more than half a billion dollars in federal funding set aside for children with disabilities, without any public record of how the money was spent.

Body

A childcare operator was given the power to allocate more than half a billion dollars in federal funding set aside from 2016 to 2023 for children with disabilities, without any public record of how the money was spent.

A 7.30 investigation uncovered the arrangement between the Department of Education and KU Children's Services after families and childcare centres raised concerns about being denied funding.

The investigation also identified potential conflicts of interest resulting from one childcare service approving payments to its competitors, as well as other services it had commercial arrangements with.

Established in 2016, the Inclusion Support Program (ISP) helps children with additional needs access early childhood education by funding additional educators, providing specialist equipment and training staff.

The program currently supports more than 23,000 children who would otherwise have a hard time accessing early education.

The Department of Education oversees the ISP, but for the past eight years has contracted private operators to run it.

One of the core functions of the program is to help childcare centres hire additional educators to support children with disability.

To do this, the government made more than \$562 million available to subsidise the salaries of childcare workers.

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KU Children's Services (KU) is a not-for-profit organisation which in 2016 won the government tender to manage that particular fund.□

Government contracts, like those with KU, are signed with private operators after they have won a bidding process to provide the most competitive offering.

Government grants, like those paid to the daycare services, offer financial assistance to entities with the intention of achieving policy outcomes.

Greens senator Barbara Pocock was recently part of a Senate inquiry into consultancy firms, which examined how government outsourced work to private enterprise.

She said programs like the ISP were an important function of government and that contracting out their administration was "not the right thing to do".

"It is government business to allocate and manage its big programs like this one," Senator Pocock said.

"Those services need to be provided, but they need to be provided in ways where taxpayers can be confident that we're getting value for money."

In a statement, KU CEO Chris Legg said the organisation processed funding applications within the designated guidelines, and was one of several reputable early childhood organisations facilitating the program.

"KU has a strong commitment to the inclusion of all children in early childhood education," she said.

Lack of transparency

Details of how the \$562 million grant was disbursed have never been made publicly available, but were instead reported by the department as a single grant to KU.

Director of the Centre for Public Integrity Geoffrey Watson said it was "disgraceful" there was no transparency over how the money was spent.

"The point is we need to know why and how this money is being allocated," Mr Watson said.

Commonwealth legislation requires all government grants and variations to those grants be reported on government site, GrantConnect.

The site shows the grant was first approved in May 2016 for \$93.6 million and had ballooned to \$562.8 million by 2023.

The department told 7.30 the grant grew in value to meet increasing demand for inclusion support from early childhood education services.

When asked in Senate Estimates this month whether payments from the fund had been reported anywhere, Department of Education assistant secretary Anne Twyman said KU held the detail "for accountability purposes".

In its 2022-23 annual report, the Department of Education acknowledged that the handling of the grant was a matter of "significant non-compliance" and said "appropriate processes" had since been put in place.

The department also told 7.30 KU did not directly receive any of the funding because payments went directly to childcare services.

According to the statement, "the IT system used to administer the [subsidy] requires the subsidy to be linked to KU Children's Services and is a system reporting mechanism".

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KU and the department initially told 7.30 that in KU's capacity as fund manager, it did not approve applications from childcare operators seeking to subsidise more support staff.

A government spokesperson also told 7.30 applications were assessed by KU as the fund manager and then approved by the department.

However, the department has since confirmed that from May 2016 until August 2023, KU was contracted to approve grants on behalf of the government.

The department raised the issue in its 2022-23 annual report, noting "grant agreements were entered into by a third party under a contractual arrangement, but without appropriate delegations in place."

KU was told to stop making grant decisions in August 2023. Education Minister Jason Clare and Minister for Early Childhood Education Anne Aly were notified of the problem the following month.

Both the department and KU have confirmed the childcare operator is no longer approving grants.

Potential conflicts of interest

As well as approving grants from 2016 to 2023, KU operated childcare services that could apply for that funding.

Mr Watson said the possibility that it could approve grants to its own services posed one conflict of interest, and that it could assess applications from its commercial competitors posed another.

"This is public money. The public is entitled to know that it's been properly spent and when these sorts of conflicts emerge, you avoid them," he said.

In a statement, KU told 7.30 "clear conflict of interest protocols and policies are in place to ensure quality, consistency and fairness for all service providers".

The Department of Education said that to mitigate conflicts of interest, KU's funding applications were processed by a third party, not-for-profit childcare operator Big Fat Smile.

7.30 can reveal that during that time, KU had a commercial arrangement with a division of Big Fat Smile to run part of the ISP in NSW and the ACT.

7.30 can also reveal Big Fat Smile was contracted directly to KU to approve funding applications from KU-run childcare centres.

Mr Watson said that was ridiculous.

"It's a complex of conflicts of interest," he said.

"That's just wrong."

He said the program was not functional in its current form, and wanted it referred to the National Office of the Auditor General.

Senator Pocock agreed the program needed to be scrutinised.

"It is vital [the services] be provided with proper review and evaluation and knowing that the right money is going to the right places with the best outcome for our kids," she said.

Value for money

While investigating the program, 7.30 also found the contracts to run the program had not been put out for retender during the eight years it had been operating.

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The government initially agreed to pay KU \$8.3 million to run the fund, but as the program was extended that contract was amended 12 times until it was eventually worth \$32.3 million.□

Likewise, contracts with other services to run parts of the program in each state and territory were amended six times.□

According to the Auditor General, in the decade between 2010 and 2022, only 17 per cent of government contracts were amended at least once, and only three per cent of those more than five times.□

Mr Watson said government contracts should be regularly reviewed to see if other providers could offer better value for money.

"The most effective test for efficiency ... is to see whether somebody else will provide the same services more cheaply," he said.

The Department of Education said continuation of existing contracts, rather than reopening tenders, "ensured ongoing inclusion support for children attending [early childhood education centres]."

In a statement, Minister for Early Childhood Education **Anne Aly** said she received briefings from the department that assured her the department was acting in accordance with Commonwealth Procurement rules including considering whether the amendments ensured value for money.

KU's CEO Chris Legg said the organisation had never approached the department for a variation of its contract as fund manager.

She said the department had offered KU variations to the initial contracts, which it accepted.

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