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# Submission to the Senate Education and Employment Committee Inquiry into The Australian Education Amendment Bill 2017

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## Executive Summary

- The Centre for Independent Studies (CIS) welcomes the opportunity to make a submission to the Senate Education and Employment Committee inquiry into The Australian Education Amendment Bill 2017 (the Bill).
- The Bill includes welcome amendments to The Australian Education Act 2013 (the Act), but also ignores crucial issues with both components of the Schooling Resource Standard (SRS), the base per-student amounts and the loadings for disadvantage.
- The Bill changes the SRS indexation rate from being a fixed 3.6% in the Act to being 3.56% from 2018–2020 and then a weighted floating rate from 2021 onwards which cannot go below 3%. The minimum indexation rate of 3% should be removed and the weighted floating rate should be implemented in 2019 instead of 2021, so the SRS can be guaranteed to be indexed based on actual school costs as soon as possible.
- The Bill updates the calculation of the SRS base amounts, using the costs of high-achieving schools, but does so using NAPLAN data from 2013–2015 and school income data from 2016. The base amounts should be recalculated using the school funding data from either during or before the period of NAPLAN data used, so the base amounts more accurately reflect the costs of high-performing schools.
- The Bill does not include any further update of the data underpinning the SRS base per-student amounts before 2027. By this time, the underlying data would be significantly out of date. There should be at least one further update before 2027 so the SRS base amounts accurately represent the costs of high-achieving schools.
- The loadings for disadvantage are not evidence-based. A panel of school financing experts should be commissioned to review the loadings for disadvantage, in order to generate loadings which are evidence-based and represent genuine needs-based funding.
- The majority of Australian school students are currently considered ‘disadvantaged’ and receive extra funding under the SRS. The loadings for disadvantage are currently unreasonably high, which means the SRS is an unjustifiably high benchmark. The Bill in its current form does nothing to change this deeply flawed funding model.
- The capacity to contribute for non-government primary schools is unnecessarily lower than that of non-government secondary schools, which means primary schools receive more government funding. The Bill reduces the size of this gap but does not close it entirely. It would be preferable for the capacity to contribute for primary schools to be the same as that for secondary schools, in order to simplify the capacity to contribute arrangements and reduce the cost to the taxpayer.
- The current method of calculating socioeconomic status (SES) scores for non-government schools is imperfect, although some measure of a school’s SES is necessary for needs-based funding. A review of the method for calculating non-government schools’ SES scores and consideration of alternatives should be conducted.
- The Bill requires state/territory governments to maintain 2017 per-student funding levels in order to receive federal funding. This requirement should be removed so states/territories retain the capacity to redistribute school funding as needed and make efficiency gains within their school systems.
- The Bill requires state/territory governments and non-government schools to cooperate with national education agreements and policies. The conditions attached to federal funding for schools should be minimal, so school systems can continue to have the flexibility necessary to cater for their own needs.

## The Schooling Resource Standard (SRS)

### SRS Indexation

The Australian Education Amendment Bill 2017 (the Bill) would change the indexation method for the SRS. Currently in The Australian Education Act 2013 (the Act), the SRS is indexed at a fixed 3.6% annually.<sup>1</sup> The Bill would change this through regulation to 3.56% for 2018–2020,<sup>2</sup> and then from 2021 onwards there will be a weighted floating indexation rate, based on 25% of changes in the consumer price index (CPI) and 75% of changes in the wage price index (WPI),<sup>3</sup> although the indexation rate would still not be able to drop below 3%.<sup>4</sup>

The proposal to index the SRS based on actual costs, as opposed to an arbitrary fixed rate, is a practical improvement. However, having a minimum indexation rate of 3% is unnecessary. This could see government spending on schools rise inconsistently with the economy, and defeats the purpose of having the SRS indexed based on actual costs to better reflect the needs of schools.

In addition, there is no reason the indexation rate should remain at 3.56% for the whole 2018–2020 period. At most, just one more year would be required to give funding certainty to schools and calculate the weighted floating rate for future years. The weighted floating rate should be introduced in 2019, instead of 2021, so as to move to an evidence-based level of indexation as quickly as possible.

### Data used to calculate SRS base amount

The SRS base per-student amounts in 2014 as set out in the Act were \$12,193 per secondary school student<sup>5</sup> and \$9,271 per primary school student.<sup>6</sup> These amounts were based on the costs of high-achieving schools, according to 2008–2010 NAPLAN results and 2009 school income data.<sup>7</sup> With indexation of 3.6% every year since 2014, the amounts in 2017 are \$13,559 per secondary student and \$10,310 per primary student.<sup>8</sup>

The Bill would change the SRS base amounts to \$13,764 per secondary school student<sup>9</sup> and \$10,953 per primary school student.<sup>10</sup> This is using the same method as described above, based on the costs of high-achieving schools, with updated data: 2013–2015 NAPLAN results and 2016 school income data.<sup>11</sup>

The updating of the data used to determine the SRS base amounts are welcome, especially given that the data used to calculate the base per-student amounts in 2014 are now many years out of date, and were already out of date even in 2014.

*Table 1: Data used to calculate base per-student amounts*

	<b>The Australian Education Act 2013</b>	<b>The Australian Education Amendment Bill 2017</b>
<b>Year for which base amount is calculated</b>	2014	2018
<b>NAPLAN results years used in calculation</b>	2008, 2009, 2010	2013, 2014, 2015
<b>School income data year used in calculation</b>	2009	2016

However, there is one issue with the choices of data for the 2018 update. Previously, the school income data was used from the middle year of the three-year series of NAPLAN results. This is a sensible approach, as the whole point of the method is to match school funding with student outcomes.

But the base amounts in the Bill are based on school income data from the year after the three-year series of NAPLAN results. This is an inferior method for several reasons. The school funding data is not from the same period as the student outcomes data, and so cannot be combined to estimate the costs of high-achieving schools with sufficient accuracy. Also, if anything, the school income data used in the method should be from the year before the student outcomes data, because student outcomes are more likely to follow from school funding rather than the other way around.

The Bill should be revised with base per-student amounts calculated using school funding data from either during or before the period of the student outcomes data. This would ensure the SRS base amounts in future years better reflect the actual costs of high-performing schools.

### Updating of SRS base amount

There is no provision in the Bill for the new SRS base amounts to be updated in future years. While the base amounts will be indexed in accordance with changes in the economy, the underlying school data used to calculate the base amounts will be significantly out of date within a few years. By 2027, the data underpinning the base amounts will be 11–14 years old.

Simply indexing the SRS base amounts result in very different amounts compared to updating the underlying NAPLAN and school income data. This is shown in the table below.

*Table 2: Base per-student amounts using indexation compared to using updated data*

	<b>The Australian Education Act 2013 (indexation only)</b>	<b>The Australian Education Amendment Bill 2017 (using updated underlying data for 2018)</b>
<b>2017 per secondary student base amount</b>	\$13,559	\$13,559
<b>2018 per secondary student base amount</b>	\$14,047	\$13,764
<b>Increase from 2017 to 2018 for per secondary student base amount</b>	3.6%	1.5%
<b>2017 per primary student base amount</b>	\$10,310	\$10,310
<b>2018 per primary student base amount</b>	\$10,681	\$10,953
<b>Increase from 2017 to 2018 for per primary student base amount</b>	3.6%	6.2%

Updating the new data as used in the Bill results in an increase of 1.5% per secondary student and 6.2% per primary student from 2017 to 2018, as opposed to an increase of 3.6% for both amounts as currently set out in the Act.

This illustrates the importance of regularly updating the underlying data of the SRS base amounts, as changes in costs of high-achieving schools tend to be substantially different to general indexation measures. Changes in costs for primary schools also tend to differ significantly from those of secondary schools.

As a result, the Bill should be amended to allow for regulations to ensure at least one further update of the underlying data of the SRS base per-student amounts before 2027, using the same methodology. This will help allocation of school funding in future years to better reflect the changing costs of high-achieving schools.

### Loadings for disadvantage amounts remain arbitrary and lack an evidence-base

The loadings for disadvantage in the Act are largely unchanged in the Bill, with the exception of the loading for students with disabilities. Therefore, the Bill fails to fix the fundamental problem with the loadings, namely that they are not evidence-based.

The loadings in the Act are based in part on the initial estimates of loadings as recommended by the Review of Funding for Schooling (the Gonski Report). The Act includes loadings for the same sources of disadvantage as in the Gonski Report,<sup>12</sup> but the loading amounts are substantially different to the initial estimates in the Gonski Report.<sup>13</sup>

Before introducing the Act in 2013, the Gillard government entered into a series of negotiations with state and territory governments, the Catholic school system, independent school associations, and teacher unions.<sup>14</sup> These negotiations resulted in the loadings for disadvantage being expanded considerably.<sup>15</sup>

Gonski Report panelist Ken Boston described the negotiations about loadings in this way:

*“The NERA and NPSI [legislated in The Australian Education Act 2013] contain needs-based loadings, but they were pulled out of the Canberra air, and negotiated in a hard-ball top-down fashion with the independent schools, the Catholic Education Commission, the AEU, and state treasuries. They are not founded on rigorous national evidence-based testing of the school resourcing standard or the loadings and indexation, to the extent envisaged by the Gonski Panel.”<sup>16</sup>*

But the Gonski Report made only indicative calculations regarding the loading amounts. It recommended that more analysis of the loadings was required and an independent school resourcing body be established to review the SRS.<sup>17</sup> To date, this has not occurred and the loadings still have no evidence base. The Act includes loadings that are different from those in the Gonski Report; but even the estimated loadings in the Gonski Report lacked detailed supporting evidence or analysis.

The following table summarises the range of loadings for disadvantage in the Act, and the data used by the Gonski Report to generate the initial estimates.

Table 3: Range of loadings in The Australian Education Act 2013 and data used to calculate initial loadings in the Gonski Report

Source of disadvantage	Range of loadings used in The Australian Education Act 2013 (% of base per-student amount)	Initial loadings and underlying data in the Gonski Report <sup>18</sup>
<b>Low socioeconomic status (SES)</b>	<p>Socio-educational advantage (SEA)<sup>19</sup> is used instead of SES, but they are both similar measures of disadvantage. There are loadings for the lowest two SEA quartiles (half) of all students.</p> <ul style="list-style-type: none"> <li>• 15% + (approximately 47% x % of students from lowest SEA quartile in the school)<sup>20</sup> for each student from lowest SEA quarter in the school,<sup>21</sup> which works out to a range of approximately <b>15%–62%</b>.</li> <li>• 7.5% + (40% x % of students from second-lowest SEA quartile in the school)<sup>22</sup> for each student from second-lowest SEA quartile in the school,<sup>23</sup> which works out to a range of <b>7.5%–47.5%</b>.</li> </ul>	<p>Recommended loading of <b>10%–50%</b> for the lowest SES quartile (25%) of all students, based on:</p> <ul style="list-style-type: none"> <li>• The existing additional resources for students from low socioeconomic backgrounds was approximately \$1000 per student, as at 2011;</li> <li>• Assumption that additional funding for schools with students from low socioeconomic backgrounds should be much higher; and</li> <li>• Two overseas examples of loadings for socioeconomic status: the Netherlands of 30%–120% and Alberta (Canada) of 14%, as at 2011.</li> </ul>
<b>Indigenous</b>	<p>(20% + % of Indigenous students in the school)<sup>24</sup> for each Indigenous student in the school,<sup>25</sup> which works out to a range of <b>20%–120%</b>.</p>	<p>Recommended loading of <b>40%–100%</b> in schools with at least 5% Indigenous students, based on:</p> <ul style="list-style-type: none"> <li>• Existing additional resources given to schools with high levels of Indigenous students were 80%-100%, as at 2011; and</li> <li>• Indigenous loadings would overlap with other school loadings such as socioeconomic status and school location.</li> </ul>
<b>Limited English language proficiency</b>	<p><b>10%</b> for each student with limited English proficiency in the school.<sup>26</sup></p>	<p>Recommended loading of <b>15%–25%</b>, based on:</p> <ul style="list-style-type: none"> <li>• The existing level of additional resources for schools with students</li> </ul>

		<p>with limited English language proficiency was approximately 17%, as at 2011; and</p> <ul style="list-style-type: none"> <li>• Two overseas examples of loadings for limited English language proficiency: Alberta (Canada) of 36% and San Francisco (US) of 61%-94%, as at 2011.</li> </ul>
<b>Disability</b>	<ul style="list-style-type: none"> <li>• <b>223%</b> for each student with a disability in a special school<sup>27</sup> (a school which provides education designed specifically for students with disabilities).<sup>28</sup></li> <li>• <b>186%</b> for each student with a disability in all other schools.<sup>29</sup></li> </ul>	N/A – there was not enough reliable data on students with disabilities in Australia to calculate loadings at the time. Recommended use of nationally consistent data to allocate loading for students with disabilities.
<b>School size/location</b>	<ul style="list-style-type: none"> <li>• The loading for school size is a fixed amount (indexed at 3.6%)<sup>30</sup> depending on the size of the school, rather than a percentage of the base per-student amount. Depending on size, <b>smaller secondary schools receive up to \$240,000 and smaller primary schools receive up to \$150,000.</b><sup>31</sup></li> <li>• The range of the loading for location is <b>10%–80%.</b><sup>32</sup></li> <li>• The calculation of a school’s loading for location uses the base per-student amount, its loading for size, and its ARIA Index Value (a measure of remoteness).<sup>33</sup></li> </ul>	<p>Recommended loading of <b>10%–100%</b>, based on:</p> <ul style="list-style-type: none"> <li>• The existing level of additional resources for small and rural schools being approximately 10%–100% as at 2011 (not actually proposed as a desirable loading).</li> </ul>

The inescapable conclusion is that the loadings in the Act are not evidence-based. Given the loadings account for more than a quarter of the total cost of the SRS,<sup>34</sup> it is imperative that each of the loadings be reviewed.

An independent review of the loadings for disadvantage by a panel of school financing experts should be conducted, with the aim of generating loadings which are evidence-based. The Bill should then be amended to include the new loadings.

Nevertheless, the Bill does include welcome changes to loadings for students with disabilities. It is proposed that there will be three levels of support for students with disabilities—supplementary, substantial, and extensive<sup>35</sup>—instead of just the one as currently in the Act.<sup>36</sup> This is a logical proposal, as not all student with disabilities have the same needs. The Bill does not specify the three different loading amounts or the different criteria, instead leaving them to the regulations.<sup>37</sup> It is important that a significant amount of work is done to examine the different levels of support needed

by students with various disabilities. Students with disabilities should have a level of support appropriate for them which is evidence-based and not arbitrary.

### The majority of school students are still ‘disadvantaged’ under the SRS

The SRS in the Act involved greatly expanded loadings for disadvantage compared to the original Gonski Report. The loadings for low SES students in particular were significantly expanded – in the Gonski Report, the loadings were to be applied only to the lowest 25% of all students, but have been extended in the Act to include the lowest 50% of all students. When other sources of disadvantage are included, the majority of students are considered ‘disadvantaged’ and attract extra funding.

The following table outlines the percentage of Australian students eligible for each type of loading, and the percentage each loading makes up of the total cost of the SRS, according to Department of Education data.

*Table 4: Eligibility and cost of each loading type in The Australian Education Act 2013*

	<b>Proportion of Australian students who are eligible for loading<sup>38</sup></b>	<b>Proportion of total cost of SRS<sup>39</sup></b>	<b>Proportion of total cost of loadings</b>
<b>Low SES</b>	50%	10.3%	40.4%
<b>Indigenous</b>	5.2%	2.0%	7.8%
<b>Limited English language proficiency</b>	3.0%	0.2%	0.8%
<b>Disability</b>	5.3%	8.8%	34.5%
<b>School size</b>	N/A – this loading is based on school characteristics.	1.7%	6.7%
<b>School location</b>	N/A – this loading is based on school characteristics.	2.5%	9.8%

In total, the new loadings account for approximately 26% of overall recurrent school funding in the SRS, over 40% of which is due to the loadings for students from low SES backgrounds. By way of comparison, in 2009 before the new school funding model, needs-based funding accounted for only approximately 11% of total recurrent school funding.<sup>40</sup> This represents a significant increase in the proportion of school funding that is allocated on the basis of disadvantage, due in part to the fact that over 50% of all Australian students are now considered ‘disadvantaged’ for the purposes of the Act.

The Bill does nothing to end this obvious illogicality that is a great cost to taxpayers. Both the current school funding arrangements and the proposed new school funding arrangements in the Bill are not genuine needs-based funding supported by evidence.

At the very least, the Bill should include an amendment to the Act to change the loading for low SES so that it applies to the lowest 25% of all students, instead of the lowest 50%.

### The SRS remains unreasonably and unjustifiably high

The SRS in the Bill is an unjustifiably high school funding benchmark. This is largely due to the expanded loadings for disadvantage, which are not evidence-based, whereby the majority of school students receive loadings for disadvantage.

The government has committed to growing total annual school funding from \$17.5 billion in 2017 to \$30.6 billion in 2027, equivalent to a 75% increase in spending.<sup>41</sup> This represents an annual increase well above inflation and enrolments.

But this significant 75% increase in spending still won't lead to any substantial changes in the percentage of the SRS received by schools. By 2027 the federal government will fund 20% of the SRS for public schools—just a minor increase from an average of 17% this year—and 80% of the SRS for non-government schools—another minor increase from an average of 77% this year.<sup>42</sup>

This indicates the SRS in an unreasonably high benchmark, as extremely large increases in government funding have only small effects on the percentage of the SRS reached.

Recent data released by the federal Department of Education projecting the percentage of the SRS schools would receive in total 2017 government funding demonstrates the extent of the problems with the SRS.<sup>43</sup> A clear pattern is that despite substantial increased federal and state government funding from 2014 to 2017, significant proportions of schools from each sector in most states and territories are still receiving well below their specified SRS funding levels.

Government school systems in all states and territories, with the exception of the ACT, will receive below 100% of their SRS levels in 2017.

*Table 5: Government school systems per-student funding and % of SRS reached in 2017 by state/territory system*<sup>44</sup>

<b>State/territory</b>	<b>Federal government funding per student (\$)</b>	<b>State/territory government funding per student (\$)</b>	<b>Total government funding per student (\$)</b>	<b>% of SRS reached in total government funding</b>
<b>NSW</b>	2,747	11,134	13,881	89.07%
<b>VIC</b>	2,571	9,999	12,570	83.16%
<b>QLD</b>	2,857	11,696	14,554	91.21%
<b>SA</b>	2,597	11,853	14,450	87.80%
<b>WA</b>	2,242	14,827	17,069	98.70%
<b>TAS</b>	3,271	13,533	16,804	94.19%
<b>ACT</b>	2,208	13,364	15,572	113.00%
<b>NT</b>	5,899	17,224	23,124	90.10%

Catholic schools systems in all states and territories, again with the one exception of the ACT, will receive below 100% of their SRS levels in 2017.

Table 6: Catholic school systems per-student funding and % of SRS reached in 2017 by state/territory system <sup>45</sup>

State/territory	Federal government funding per student (\$)	State/territory government funding per student (\$)	Total government funding per student (\$)	% of SRS reached in government funding
NSW	8,761	2,665	11,426	95.34%
VIC	8,807	2,383	11,191	95.32%
QLD	8,788	2,704	11,492	95.39%
SA	8,812	2,273	11,085	90.18%
WA	8,681	3,585	12,266	94.64%
TAS	9,833	2,757	12,590	90.07%
ACT	7,876	2,374	10,250	96.63%
NT	14,338	4,146	18,484	83.27%

For independent schools, the data is provided only at the approved authority level, rather than at a system or school level.

The percentage of independent school approved authorities reaching 100% or more of their SRS is a more accurate measure of current funding levels than the simple average percentage of SRS received in government funding by independent school approved authorities. This is because the average figures are inflated by relatively small numbers of approved authorities receiving significantly more than their SRS.

In every state and territory except the ACT, two-thirds or more of the independent school approved authorities will receive below 100% of their SRS funding levels in 2017.

Table 7: Independent school approved authorities per-student funding and % of SRS reached in 2017 by state/territory <sup>46</sup>

State/territory	Federal government funding per student (\$)	State/territory government funding per student (\$)	Total government funding per student (\$)	% of approved authorities reaching 100% or more of SRS in government funding	Average % of SRS in government funding received by approved authorities
NSW	6,933	2,585	9,519	33.67%	100.10%
VIC	6,901	1,770	8,671	32.12%	95.61%
QLD	7,708	2,515	10,224	23.40%	95.77%
SA	7,517	2,028	9,545	13.11%	87.55%
WA	7,174	3,294	10,467	20.69%	91.72%
TAS	8,309	2,524	10,834	4.00%	85.14%
ACT	5,939	1,937	7,876	82.35%	131.79%
NT	11,930	3,668	15,598	22.22%	83.82%

The clear trend in all sectors in almost all states and territories is that despite very significant real increases in per-student spending by the commonwealth, schools continue to be funded well below

their specified SRS levels. It appears the reason for not reaching the revised SRS is the unreasonably high loadings, rather than the base amount, or some independent schools being ‘overfunded.’

The base per-student amounts in 2017 are \$13,559 for secondary school students and \$10,310 for primary school students.<sup>47</sup> Approximately 57% of school students are in primary school and 43% are in secondary school,<sup>48</sup> which gives rise to a weighted average of \$11,707 per student in 2017.

Government school systems in almost every state and territory are projected to receive funding well above this base per-student amount, while still falling short of reaching their SRS, as shown below:

*Table 8: Per-student funding received by government schools above base amount and % of SRS reached in 2017 by state/territory*<sup>49</sup>

<b>State/territory government school system</b>	<b>Total government funding per student (\$)</b>	<b>(\$)</b> Amount of total government funding received per student above SRS base per student amount ( <b>\$11,707</b> )	<b>% of SRS reached in total government funding</b>
<b>NSW</b>	13,881	2,174	89.07%
<b>VIC</b>	12,570	863	83.16%
<b>QLD</b>	14,554	2,847	91.21%
<b>SA</b>	14,450	2,743	87.80%
<b>WA</b>	17,069	5,362	98.70%
<b>TAS</b>	16,804	5,097	94.19%
<b>ACT</b>	15,572	3,865	113.00%
<b>NT</b>	23,124	11,417	90.10%

With the exception of Victoria, every state and territory will receive thousands of dollars per student in needs-based funding (funding above the base per-student amount) in 2017; yet all states and territories will still receive below 100% of their SRS funding levels (except the ACT).

The example of the Northern Territory is striking. In 2017, it is projected to receive \$23,124 per student in government schools, which represents over \$11,000 per student in needs-based funding. Despite this, it is still projected to receive only 90% of its SRS in 2017. In fact, the majority of the cost of the SRS in the Northern Territory, 52%, in 2017 was due to the loadings.<sup>50</sup> This is a clear example of how the expanded loadings are the reason for government schools not receiving their full SRS, rather than the size of the base per-student amount, or some non-government schools being ‘overfunded.’

Some analysts have outlined that independent schools received a total of \$215 million above their specified SRS levels in 2014.<sup>51</sup> But some independent schools’ ‘overfunding’ (according to the SRS) is not a significant proportion of total recurrent school funding (over \$53 Billion in 2014–15<sup>52</sup>) and so by itself cannot address the alleged ‘underfunding’ of the entire public school system. In addition, the same measure would show both the Catholic and independent schools systems as being largely underfunded across most states and territories, indicating the public school system is not especially disadvantaged by the SRS.

The evidence suggests the high loadings for disadvantage substantially raise the cost of reaching the SRS. It would seem further significant increases in real government spending per student will be

required for all Australian schools to reach even 95% of the SRS, as long as the loadings remain so high. On this basis, it is possible to mount the argument that schools are not ‘underfunded’ but instead the target is set unrealistically and unjustifiably high.

It is imperative that the Bill be revised to include evidence-based loadings at a reasonable cost, to bring integrity to the SRS funding formula and make it financially viable in the long-term.

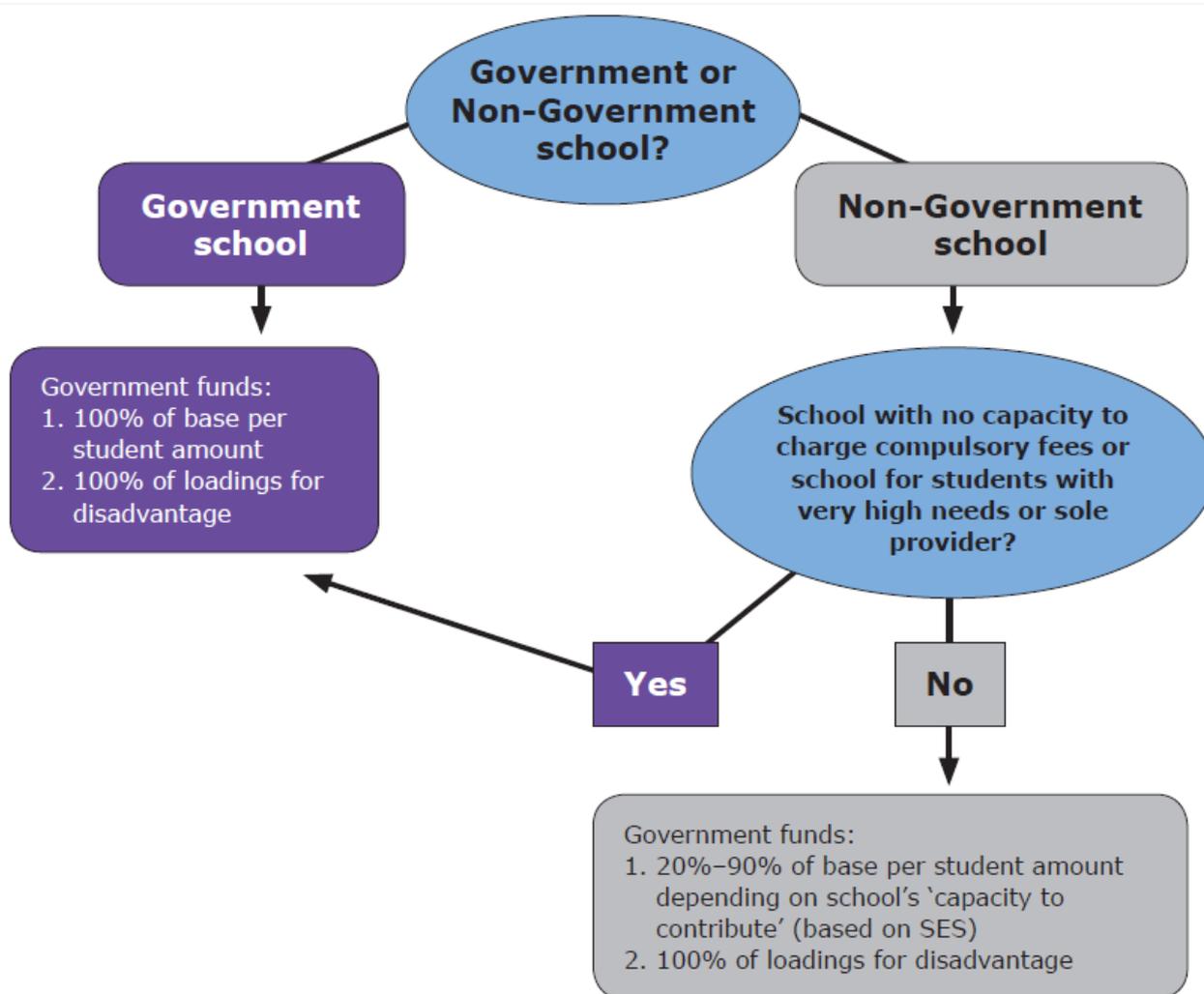
## Capacity to contribute percentages

### Arbitrary different capacities to contribute for primary and secondary schools

The Bill includes changes to the ‘capacity to contribute’ for non-government primary schools.

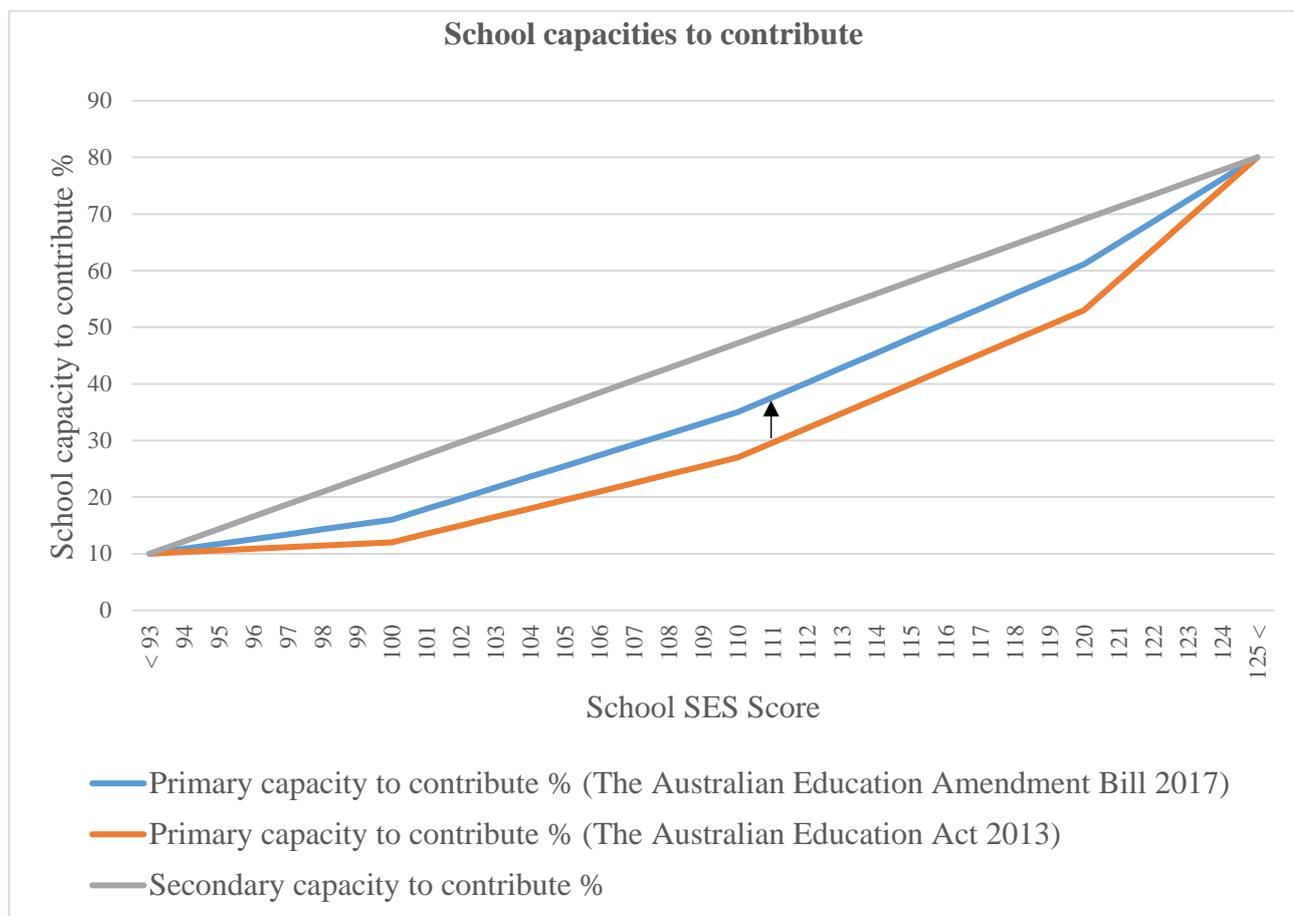
Under the SRS formula, government funding of non-government schools includes funding for all the loadings for disadvantage,<sup>53</sup> and 20%–90% of the base amount depending on the school’s capacity to contribute<sup>54</sup> — ranging from 10% to 80% — which is calculated using the school’s SES score (the average SES score is 100).<sup>55</sup> That is, the more a school’s parents are deemed to have the capacity to contribute to the cost of the school, the less government funding the school receives. This is illustrated in the diagram below.

Figure 1: SRS for non-government schools explained



Primary and secondary schools have different capacities to contribute in both the Act and the Bill. The capacity to contribute for primary schools is less than the capacity to contribute for secondary schools. The Bill reduces this difference, but still maintains a gap, as illustrated in the figure below.

Figure 2: Primary and secondary school capacities to contribute and SES scores <sup>56</sup>



As can be seen from the graph, the capacity to contribute for primary schools is a curve, while the capacity to contribute for secondary schools is a straight line.

In both the Act and the Bill, the capacity to contribute for secondary schools increases by approximately 2.19% for each 1 point increase in SES score (a linear relationship).

The primary school curves in both the Act and the Bill mean primary schools with lower SES scores have a lower capacity to contribute than if the curve was a straight line, which results in them receiving more government funding.

The differences in the capacity to contribute curves for primary schools in the Act and the Bill are shown in the table below.

*Table 9: Primary schools' capacity to contribute and SES scores in The Australian Education Act 2013 and The Australian Education Amendment Bill 2017*

<b>SES Score Range</b>	<b>Capacity to contribute % increase per 1 point increase in SES score in The Australian Education Act 2013</b>	<b>Capacity to contribute % increase per 1 point increase in SES score in The Australian Education Amendment Bill 2017</b>
<b>93-100</b>	1.5	0.9
<b>100-110</b>	1.5	1.9
<b>110-120</b>	2.6	2.6
<b>120-125</b>	5.4	3.8

The curve in the Act is arbitrarily divided up into three different sections, each with a different linear increase in the capacity to contribute with a corresponding increase in SES score. The Bill divides the curve up into four sections. It is unclear why the curves have been drawn in such a way.

Further, there is no justification in the Bill or its explanatory memorandum or the Gonski Report as to why primary schools should have a lower capacity to contribute than secondary schools. If anything, the contrary should be the case, since the SRS base amount for primary schools is less than that for secondary schools. In other words, having the same capacity to contribute for primary and secondary schools would still result in primary school parents contributing less money as a dollar amount per student.

The Bill should be amended such that the capacity to contribute for primary schools is the same as that for secondary schools, with a simple linear relationship between SES score and the capacity to contribute.

### [Capacity to contribute percentages are based on a flawed SES measure](#)

Non-government schools' capacities to contribute in the Act are calculated using SES scores that are based on census data and the school families' post codes.<sup>57</sup> That is, schools are required to provide the federal Department of Education with a list of students' residential addresses, which are then used to come up with an overall SES score for the school. The Bill makes no changes to this.

There have been major criticisms of this approach by some in the non-government school sector.<sup>58</sup> The current method of calculating the capacity to contribute percentages certainly appears to be imperfect, as residential addresses are not necessarily accurate proxies for SES. Schools with low-income parents from higher SES areas are unfairly disadvantaged, for example. Or a school that charges lower fees and attracts students from low SES backgrounds is disadvantaged compared to another school in the same area that charges higher fees and attracts students from high SES backgrounds.

However, it is not clear if there are in fact any viable alternative measures available to assess school parents' SES and calculate SES scores for the purposes of allocating school funding. It is preferable to have government funding allocated to non-government schools based at least in part on some measure of the school's capacity to charge fees.

Therefore, an expert panel should be commissioned to review the current arrangements for calculating SES scores and consider potential alternative methods, in cooperation with the Australian Bureau of Statistics.

## Commonwealth conditions of school funding

### State and territory governments

The Bill stipulates the following four broad conditions for school funding assistance to the states and territories, replacing most of the existing conditions in the Act:

1. States/territories must implement national policy initiatives for school education as agreed by the Education Council of the Council of Australian Governments (COAG).<sup>59</sup>
2. States/territories must be a party to a national agreement on school education and fulfil their obligations under the agreement.<sup>60</sup>
3. States/territories must enter a bilateral agreement with the Commonwealth relating to implementation of school education reform for both government and non-government schools within their jurisdiction, and fulfil their obligations under the agreement.<sup>61</sup>
4. States/territories must at least maintain their funding levels in accordance with the regulations,<sup>62</sup> set to be 2017 per-student funding levels.<sup>63</sup>

A nationally consistent school funding agreement would be welcome but difficult to achieve. Drafting an agreement that will satisfy all states and territories will be hard. This is shown by the most recent example of the Gillard and Rudd governments' attempts to get the states and territories to sign up to the National Education Reform Agreement, where only three states and territories signed up,<sup>64</sup> despite the promises of billions of extra dollars from the federal government.<sup>65</sup>

The first three conditions mentioned above are reasonable, given there are core educational standards and practice necessary for the entire Australian school system to thrive. However, the national and bilateral agreements should include only minimal conditions, such as transparency of school funding allocation and participation in national testing, to avoid burdening the states and territories with regulations that are not necessarily appropriate for them. Different states and territories have different educational needs and so a national agreement must not be overly prescriptive.

The fourth condition, however, is problematic. State and territory governments should remain free to adjust their school funding budgets as they see fit. Increasing or maintaining per-student funding will not necessarily lead to better student outcomes, and if states and territories wish to reallocate existing levels of funding rather than add to it, this should be allowed. It is important that states and territories have the option of spending money on schools more effectively, rather than be forced to simply spend the same amount or more. For example, if there are inefficiencies within a state's school system, the state should be able to end those inefficiencies and save taxpayer money, for the sake of fiscal responsibility.

The rationale for this condition in the Bill's explanatory memorandum is to prevent states and territories from cost-shifting to the federal government,<sup>66</sup> but this ignores the fact that state and territory government funding of schools will be publically available. This means that ultimately state and territory governments will be held accountable by their own populations for both the quantum of school funding and the effectiveness of how it is spent.

The Bill should be amended to remove the condition for state and territory governments to maintain their 2017 funding levels.

### Non-government schools

The Bill will make the following changes to the ongoing policy requirements for approved authorities for non-government schools:

- They must co-operate with their respective states and territories in implementing the new national policy reforms and agreements, and comply with all the regulations.<sup>67</sup>
- They will no longer be required to have implementation plans or school improvement frameworks.<sup>68</sup>

The implementation plans and school improvement frameworks currently mandated under the Act appear to be unnecessary and burdensome requirements for schools, and so it is sensible to remove these.

It is also reasonable to expect non-government schools to comply with new national policy reforms as a condition of receiving federal government funding. However, again similar to state and territory governments, it is important the national policies are high-level and not unduly prescriptive. There is a large amount of diversity within the non-government school system, which means different schools will have different needs. Rigid overarching policies will not be appropriate for all non-government schools.

## Recommendations

1. Remove the minimum indexation rate of 3% so the SRS is guaranteed to be indexed based on actual costs to better reflect the needs of schools.
2. Introduce the weighted floating indexation rate in 2019 instead of 2021, to move to an evidence-based level of indexation as quickly as possible.
3. Recalculate the base per-student amounts using school funding data from either during or before the period of NAPLAN data used to calculate the costs of high-performing schools, to ensure the SRS base amounts in future years more accurately reflect school costs.
4. Ensure there is at least one further update of the underlying data of the SRS base per-student amounts before 2027, using the same methodology, to ensure allocation of school funding in future years better reflect the changing costs of high-achieving schools.
5. Commission a panel of school financing experts to review the loadings for disadvantage, in order to generate loadings which are evidence-based and represent genuine needs-based funding.
6. As an interim measure before Recommendation 5 above, change the loading eligibility for low SES students so that it applies to the lowest 25% of all students instead of the lowest 50%, to reduce the unreasonably high cost of reaching the SRS and end the absurdity of classifying the majority of school students as 'disadvantaged'.
7. Change the capacity to contribute for primary schools so it is the same as that for secondary schools, with a simple linear relationship between SES score and the capacity to contribute, in order to simplify the capacity to contribute arrangements and reduce the cost to the taxpayer.
8. Commission a panel of school financing experts to review the current flawed method for calculating non-government schools' SES scores and consider alternatives, in cooperation with the Australian Bureau of Statistics.
9. Remove the requirement for state/territory governments to maintain 2017 per-student funding levels and ensure the other conditions of federal school funding as part of a national agreement are minimal, so states/territories can continue to have local arrangements appropriate for their own needs.
10. Ensure the conditions of federal school funding for non-government school authorities as part of new national policy reforms are minimal, so non-government schools can continue to have practices appropriate for their own needs.

## About The Centre for Independent Studies

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## Endnotes

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- <sup>1</sup> The Australian Education Act 2013 s34(3)
- <sup>2</sup> The Australian Education Amendment Bill 2017 Explanatory Memorandum. p. 22
- <sup>3</sup> The Australian Education Amendment Bill 2017 Item 8 (11A(2))
- <sup>4</sup> The Australian Education Amendment Bill 2017 Item 8 (11A(1))
- <sup>5</sup> The Australian Education Act 2013 s34(2)(a)
- <sup>6</sup> The Australian Education Act 2013 s34(1)(a)
- <sup>7</sup> Gonski, D., Boston, K., Greiner, K., Lawrence, C., Scales, B., & Tannock, P. 2011. *Review of Funding for Schooling—Final Report*. <https://docs.education.gov.au/system/files/doc/other/review-of-funding-for-schooling-final-report-dec-2011.pdf> pp. 255-257; Connors, L., & McMorrow, J. 2015. *Imperatives in Schools Funding: Equity, sustainability and achievement*. Australian Council for Educational Research. <http://research.acer.edu.au/cgi/viewcontent.cgi?article=1024&context=aer> p. 42
- <sup>8</sup> Department of Education and Training. 2017a. *Base SRS amount for primary and secondary schools for each year (including projections) from 2014 to 2020, Answer to Question on Notice SQ17-000518*. Senate Committee: Education and Employment, Additional Estimates 2016–2017. p. 1
- <sup>9</sup> The Australian Education Amendment Bill 2017 Item 13
- <sup>10</sup> The Australian Education Amendment Bill 2017 Item 12
- <sup>11</sup> The Australian Education Amendment Bill 2017 Explanatory Memorandum. p. 17. However, it should be noted that other parts of the explanatory memorandum suggest 2015 school funding data was used instead of 2016 school funding data. In any case, the school funding data used to calculate the updated SRS base per-student amounts were from either after, or in the last year of, the three-year NAPLAN data series used. The school funding data used should ideally be in the middle of, or before, the three-year NAPLAN series.
- <sup>12</sup> The Australian Education Act 2013 s35
- <sup>13</sup> Boston, K. 2016. *Dr. Paul Brock Memorial Medal*. Address to the Australian Council for Educational Leaders. [http://www.aceel.org.au/aceel/ACEL\\_docs/Branches/NSW%20Events/2016/ACEL\\_NSW\\_Awards\\_Speech\\_WEB.pdf](http://www.aceel.org.au/aceel/ACEL_docs/Branches/NSW%20Events/2016/ACEL_NSW_Awards_Speech_WEB.pdf) p.3; Connors & McMorrow. 2015. p. 42
- <sup>14</sup> Boston. 2016. p. 3; Connors & McMorrow. 2015. p. 42
- <sup>15</sup> Connors & McMorrow. 2015. p. 42
- <sup>16</sup> Boston. 2016. p. 3
- <sup>17</sup> Gonski et al. 2011. p. 169; 191
- <sup>18</sup> Gonski et al. 2011. p. 169; pp. 257–261.
- <sup>19</sup> Australian Education Regulation 2013 regulation 18
- <sup>20</sup> The Australian Education Act 2013 s38(3)
- <sup>21</sup> The Australian Education Act 2013 s38(2)
- <sup>22</sup> The Australian Education Act 2013 s38(6)
- <sup>23</sup> The Australian Education Act 2013 s38(5)
- <sup>24</sup> The Australian Education Act 2013 s37(2)
- <sup>25</sup> The Australian Education Act 2013 s37(1)
- <sup>26</sup> The Australian Education Act 2013 s39
- <sup>27</sup> Australian Education Regulation 2013 regulation 17
- <sup>28</sup> The Australia Education Act 2013 s6
- <sup>29</sup> Australian Education Regulation 2013 regulation 17
- <sup>30</sup> The Australia Education Act 2013 s44(3)(a)
- <sup>31</sup> The breakdown of the loadings for schools by size are as follows:

- Small schools (a secondary school with 100–500 students or a primary school with 15–200 students as defined in The Australia Education Act 2013 s43(1,3)) receive the maximum size loading of \$240,000 if a secondary school (s44(1)(b)) and \$150,000 if a primary school (s44(1)(a)).
- Medium schools (a secondary school with 501–699 students or a primary school with 201–299 students as defined in The Australia Education Act 2013 s43(1,4)) receive a percentage of the maximum size loading amount depending on how many students it has over the lower limit (s51).
- Large schools (a secondary school with at least 700 students or a primary school with at least 300 students as defined in The Australia Education Act 2013 s43(1,4)) receive no loading for size (s42(4)).
- Very small schools (a secondary school with fewer than 100 students or a primary school with fewer than 15 students as defined in The Australia Education Act 2013 s43(1–2)) receive a percentage of the maximum size loading depending on its ARIA Index Value (which measures accessibility and remoteness), in addition to a starting amount of at least \$10,000 for a primary school and \$20,000 for a secondary school (ss46–50).

<sup>32</sup> The breakdown of the loadings for schools by location are as follows:

- Major city schools receive no loading for location (The Australia Education Act 2013 s40(2)).
- Inner regional schools receive up to 10% of [(the per student base level amount x the number of students) + the school’s size loading], depending on its ARIA Index Value (The Australia Education Act 2013 s41(1)).
- Outer regional schools receive between 10%–30% of [(the per student base level amount x the number of students) + the school’s size loading], depending on its ARIA Index Value (The Australia Education Act 2013 s41(2)).
- Remote schools receive between 30%–70% of [(the per student base level amount x the number of students) + the school’s size loading], depending on its ARIA Index Value (The Australia Education Act 2013 s41(3)).
- Very remote schools receive 70%–80% of [(the per student base level amount x the number of students) + the school’s size loading], depending on its ARIA Index Value (The Australia Education Act 2013 s41(4)).

<sup>33</sup> The Australia Education Act 2013 s40(1)

<sup>34</sup> Department of Education and Training. 2017b. *Schooling Resource Standard (SRS) – proportion of government funding, Answer to Question on Notice SQ17-000210*. Senate Committee: Education and Employment, Additional Estimates 2016–2017. p. 5

<sup>35</sup> The Australian Education Amendment Bill 2017 Item 17 (36(1))

<sup>36</sup> The Australia Education Act 2013 s36(1)

<sup>37</sup> The Australian Education Amendment Bill 2017 Item 17 (36(5))

<sup>38</sup> Department of Education and Training. 2016a. *Schools funding (low SES) SQ16-000949*. Senate Committee: Education and Employment, Supplementary Budget Estimates 2016–2017. pp. 1–2 (proportion of students eligible for low SES loadings is rounded up to 50%)

<sup>39</sup> Department of Education and Training. 2017b. p. 5

<sup>40</sup> Gonski et al. 2011. p. 132; Rorris, A., Weldon, P., Beavis, A., McKenzie, P., Bramich, M., Deery, A. 2011. *Assessment of current process for targeting of schools funding to disadvantaged students: A report prepared for The Review of Funding for Schooling Panel*. Australian Council for Educational Research.

[http://research.acer.edu.au/cgi/viewcontent.cgi?article=1009&context=policy\\_analysis\\_misc](http://research.acer.edu.au/cgi/viewcontent.cgi?article=1009&context=policy_analysis_misc). p.35

<sup>41</sup> Turnbull, M. & Birmingham, S. 2017. *True needs-based funding for Australia’s schools*. Media Release. <https://www.pm.gov.au/media/2017-05-02/true-needs-based-funding-australias-schools>

<sup>42</sup> Turnbull & Birmingham. 2017.

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- <sup>43</sup> Department of Education and Training. 2016b. *Data and modelling – School Resourcing Standard, Answer to Question on Notice SQ16-000852*. Senate Committee: Education and Employment, Supplementary Budget Estimates 2016–2017.
- <sup>44</sup> Department of Education and Training. 2016b. pp. 2–32; Department of Education and Training. 2016c. *Data and modelling – funding, Answer to Question on Notice SQ16-000847*. Senate Committee: Education and Employment, Supplementary Budget Estimates 2016–2017p.2
- <sup>45</sup> Department of Education and Training. 2016b. pp. 2–32; Department of Education and Training. 2016c. p.2
- <sup>46</sup> Department of Education and Training. 2016b. pp. 2–32; Department of Education and Training. 2016c. p.2
- <sup>47</sup> Department of Education and Training. 2017a. p. 1
- <sup>48</sup> Australian Productivity Commission. 2017. *Report on Government Services 2017: School Education*. <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/child-care-education-and-training/school-education/rogs-2017-volumeb-chapter4.pdf> p. 4.5
- <sup>49</sup> Department of Education and Training. 2016b. pp. 2–32; Department of Education and Training. 2016c. p.2
- <sup>50</sup> Department of Education and Training. 2017b. p. 5
- <sup>51</sup> Goss, P. & Sonnemann, J. 2016. *Circuit Breaker: A new compact on school funding*. The Grattan Institute. <https://grattan.edu.au/wp-content/uploads/2016/11/881-Circuit-Breaker-New-Compact.pdf> p. 16
- <sup>52</sup> Australian Productivity Commission. 2017. p. 4 of table 4A.8
- <sup>53</sup> The Australia Education Act 2013 s32
- <sup>54</sup> The Australia Education Act 2013 s33(1); s54(3)
- <sup>55</sup> Australian Education Regulation 2013 regulation 23;
- <sup>56</sup> The Australia Education Act 2013 s54(3); The Australian Education Amendment Bill 2017 Item 36
- <sup>57</sup> The Australian Government. 2014. *Guide to the Australian Education Act 2013: Calculating SES scores*. <https://aeaguide.education.gov.au/content/b2131-calculating-ses-scores>
- <sup>58</sup> For example: Balogh, S. 2017. *Catholics claim ‘corrupted’ Gonski system favours rich families*. The Australian. <http://www.theaustralian.com.au/budget-2017/education/catholics-claim-corrupted-gonski-system-favours-rich-families/news-story/5ab41e83174c83610bef3e9ec03c7140> ; Knott, M. 2017. *Revealed: the high-fee private schools to win big under the Gonski 2.0 changes*. The Sydney Morning Herald. <http://www.smh.com.au/federal-politics/political-news/revealed-the-highfee-private-schools-to-win-big-under-the-gonski-20-changes-20170516-gw5qt3.html> ; Dodd, T. 2017. *Private schools hit back at Catholics in school funding row*. The Australian Financial Review. <http://www.afr.com/leadership/private-schools-hit-back-at-catholics-in-school-funding-row-20170515-gw56xl>
- <sup>59</sup> The Australian Education Amendment Bill 2017 Item 59 (22(1))
- <sup>60</sup> The Australian Education Amendment Bill 2017 Item 59 (22(2(a)))
- <sup>61</sup> The Australian Education Amendment Bill 2017 Item 59 (22(1(b)))
- <sup>62</sup> The Australian Education Amendment Bill 2017 Item 60 (22(a))
- <sup>63</sup> The Australian Education Amendment Bill 2017 Explanatory Memorandum. p. 3
- <sup>64</sup> The Australian Education (Participating States and Territories) Determination 2014 s6
- <sup>65</sup> Australian Government. 2013a. *National Plan for School Improvement*. [http://www.budget.gov.au/2013-14/content/glossy/gonski\\_policy/download/NPSI.pdf](http://www.budget.gov.au/2013-14/content/glossy/gonski_policy/download/NPSI.pdf) p.2
- <sup>66</sup> The Australian Education Amendment Bill 2017 Explanatory Memorandum. p. 3
- <sup>67</sup> The Australian Education Amendment Bill 2017 Item 85 (2A)
- <sup>68</sup> The Australian Education Amendment Bill 2017 Item 92; Item 84; Item 86