

Submission
to Senate Select Committee on
School Funding Investment



**Independent
Schools** Victoria

Inquiry:

Reduced Commonwealth Funding for State and Territory Provided Schools

2 March 2016

To realise this, we:

- advocate for excellence in education
- champion Member Schools
- support quality education
- protect the right of parents to choose where and how their children are educated.

Independent Schools Victoria will assist our 205 diverse Member Schools to continue providing the best possible education outcomes for the citizens of tomorrow.

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Introduction

Independent Schools Victoria (ISV) welcomes the invitation to provide a written submission to the Senate Select Committee on School Funding Investment, and we look forward to taking an active part in these important debates.

The Review of Funding for Schooling represented a significant opportunity to consider how government can and should support the education of all Australian students. Independent Schools Victoria has been researching this topic for more than a decade, extensively analysing funding and discussing options with Australian and overseas academics, educationalists and school leadership groups. We are well placed to offer a balanced view on the strengths and weaknesses of the various funding arrangements being suggested by different parties.

ISV's original submission to the Review of Funding for Schooling was predicated on four basic principles:

- that funding should focus on students, not schools
- that there should be no funding freeze for individual schools
- that parents' personal or private contributions towards their child's education should have no bearing on the level of government support received by schools
- that choice in education should be defended by law.

We also support the previously-stated criteria for effective funding models identified by the Independent Schools Council of Australia (ISCA). These criteria state that any funding model should encourage investment in education and should be:

- | | |
|---------------|-------------------------|
| ■ equitable | ■ predictable |
| ■ flexible | ■ consistent |
| ■ transparent | ■ student-based |
| ■ simple | ■ based on robust data. |

These four basic principles and eight funding criteria continue to inform our response to this inquiry and our participation in the debate on school funding.

The Terms of Reference for this inquiry focus on the funding arrangements that would apply to schools in 2018 and 2019, and the opportunity cost for schools of the current Australian Government's stated method for calculating indexation on the quantum of funding allocated for school education. These issues are important, and should be given due consideration. However, ISV believes that this focus is too narrow. In order to ensure that all Australian schools are able to meet the challenges of educating students beyond 2019, the public debate should take a much broader approach. ISV would encourage all members of the Senate Select Committee to reflect on these broader issues in reading our submission.

This submission is made on behalf of our Member Schools, as well as in the light of the potential impact that changes to the roles and responsibilities of each level of government in providing funding for government and non-government schools may have on ISV in its role as a peak body and member service organisation. It should be read in conjunction with the Submission made to this inquiry by the Independent Schools Council of Australia (ISCA)

Background

ISV was established in 1949 and today represents, promotes the interests of, and provides services to more than 210 Member Schools. In 2015, our Member Schools educated more than 142,000 school-aged students on more than 300 campuses across metropolitan Melbourne and in regional and rural Victoria, and employed more than 18,000 teachers and other staff to support these students. Many schools provide vocational education and training, as well as substantial services beyond school education, including long day care, out of school hours care, kindergarten programs and pre-Prep programs.

This submission is shaped by the educational, social and philosophical diversity of the Victorian Independent sector. Our membership reflects a variety of religious faiths and ethos with schools affiliated to Anglican, Assemblies of God, Baptist, Brethren, Catholic, Christian, Coptic Orthodox, Greek Orthodox, Jewish, Lutheran, Islamic, Pentecostal, Presbyterian, Seventh-day Adventist and Uniting churches. There are inter, multi and non-denominational schools, as well as schools for students with learning difficulties and individual needs and schools adhering to the Montessori and Steiner education philosophies.

Executive Summary

The announcement by the Australian Government in its 2014-15 Budget, and confirmed in the 2015-16 Budget, that it would index the total funding quantum for Australian schools according to the Consumer Price Index (CPI) represents an opportunity cost to schools, rather than a 'cut' in funding. Nonetheless, ISV would argue that it is not appropriate to use CPI as the basis for calculating the indexation of funding. Instead, ISV calls for all levels of government to ensure that funding for school education is maintained in real terms, by linking indexation to a measure of the movement of the cost of education. This will ensure that all Australian students, including, but not limited to, those in regional, rural and remote areas, and those students acquiring the job skills of the future, are given the chance to maximise their potential.

The question of the method by which the Australian Government would allocate funding to individual schools beyond 2017 also remains unresolved. It is not currently certain whether the indexation arrangements would be linked to schools' 2017 funding allocations, a continuation of the current funding model, or the introduction of a new funding model. ISV is therefore calling on the Australian Government to clarify the funding situation as soon as practicable, so that schools can plan with the greatest amount of certainty. The same would apply with regard to any plans by the Australian Labor Party to amend the details of the funding model in 2018 and 2019, and their plans beyond 2019.

Notwithstanding these issues, ISV is concerned that the focus of the current Inquiry, and much of the public debate regarding the Students First funding, is short-term in nature. The questions of the quantum of funding that the Australian Government will provide to schools in 2018 and 2019, and how that quantum will be indexed, are important. However, focusing solely on these shorter-term questions fails to address the more fundamental questions regarding the current Australian Government funding arrangements. These include:

- What modifications could and should be made to the architecture of the funding model in the longer term?
- Should the funding model aim to be a truly national funding model and, if so, how will this be achieved?
- Will the state and territory governments fund schools according to this model, or will they retain their individual funding allocations?
- Is the proposed significant increase in funding for schools sustainable for government, and what happens if it is not?
- How will schools continue transition towards their notional entitlements under the funding model beyond 2019?

Recommendations

Based on the discussion below, ISV makes the following recommendations regarding Australian Government funding arrangements beyond 2017.

- Recommendation One: Ensure that indexation of Australian Government funding is linked to a robust measure of the cost of school education
- Recommendation Two: Provide funding on a consistent and equitable basis, by not indexing individual schools' funding simply by CPI
- Recommendation Three: If the Australian Government intends to make any changes to the funding model, provide schools with sufficient notice of the impact at the individual school level
- Recommendation Four: All political parties announce their detailed school education funding policies prior to the 2016 federal election

The impact of cuts announced in the 2014-15 Budget

Characterising the Australian Government's funding arrangements as 'cuts'

The Terms of Reference for this inquiry indicate that the main focus of the Committee is on the 'cuts' that were made to Australian Government funding for schools beyond 2017 that were announced initially in the 2014-15 Budget. However, ISV believes that this characterisation of the Australian Government's stated intentions is misleading.

Prior to the 2013 Federal election, although the then Australian Government had made a commitment to introduce six years' worth of funding for Australian schools, the only funding allocations that were in the Forward Estimates were for the four year period between 2014 and 2017. In August 2013, in announcing that the Coalition was 'on a unity ticket' with the ALP, Mr Abbott and Mr Pyne [Pyne, 2013; Topsfield, 2013] indicated clearly that this statement applied only to the four years for which funding had been allocated under the Forward Estimates.

In announcing in the 2014 Budget that school funding would be indexed according to movements in CPI, the Australian Government projected that CPI indexation would be equal to 2.5 per cent per annum. Thus, in effect the Australian Government indicated that it does expect that dollar funding for schools will continue to grow beyond 2017, and consequently it cannot be said that they intend to *cut* funding.

However, it is correct to say that, if the Australian Government's assumption that CPI will be equal to 2.5 per cent is accurate, the Australian Government's proposed arrangements would deliver less funding to Australian schools than those proposed by the Australian Labor Party (ALP). Since the funding arrangements proposed by the ALP indicate that Australian Government funding for school education will be indexed by 4.7 per cent per annum, the decision by the Coalition is better characterised as an opportunity cost for schools – that is, the loss of potential gain when one alternative is chosen, relative to other possible alternatives.

ISV is concerned that the use of emotive language such as 'cuts' to describe the funding situation clouds this issue, and prevents us from debating the important policy issues that arise from the different political parties' positions on school education funding.

Implications for schools of indexing funding by CPI from 2018

Notwithstanding our concerns about the terminology being used in the debate on school funding, ISV is concerned that funding schools according to movements in CPI would create difficulties for schools. There are two key issues for schools that arise from this proposal:

- Funding schools according to CPI would not accurately reflect movements in the costs of school education
- It is unclear how the proposal to fund schools according to CPI from 2017 would impact on the funding allocations to individual schools that are in the middle of transition

CPI and the cost of school education

ISV is concerned that funding schools according to CPI would not accurately reflect movements in the costs of school education. As a consequence, ISV is concerned that the real value of Australian Government funding for all Australian schools would decline over time, even as the nominal value increased.

As highlighted in the submission made by ISCA, measures of indexation that are more closely linked to the cost of education – the education component of CPI and the Average Government School Recurrent Cost (AGSRC) – have historically been higher than CPI. And given the nature of the education sector, this is to be expected. The largest component of a school's expenditure is 'salaries and wages', with most schools spending between 65 and 75 per cent of their operating revenue on this item. The types of productivity gains available to many other parts of the economy are simply not available to schools.

Indeed, a number of the emerging developments in modern education provide obstacles to improved productivity in schools. These developments aim to provide improved educational outcomes for students, but they retard the scope for productivity gains within schools. These developments include:

- smaller class sizes
- lower face-to-face teaching hours for individual teachers
- increased requirements for teachers to undertake professional learning
- legislative requirements for students to remain in relatively higher cost secondary education until they are older
- the increasing importance of completing a higher cost senior secondary certificate in the labour market
- expectations that schools will provide additional support for students.

This means that school costs are dominated by wage and salary costs. Over time, these costs grow faster than the movement in CPI because of nation-wide growth in labour productivity. Teacher wages need to remain in touch with broader wage movements or teaching will become less competitive as a profession, and thus less able to attract and retain quality staff.

For this reason, ISV would recommend to the Australian Government that indexation on any funding for school education be linked to a more robust measure of the movement in school education costs. The Review of Funding for Schooling Panel attempted to do precisely this when it recommended the establishment of the Schooling Resource Standard (SRS). The Final Report from the Review Panel noted, not only that the value of the SRS was designed to be an 'effective and efficient' [2011; 156] measure of the cost of educating Australian students, but they indicated their expectation that they would 'index annually and review periodically' [2011: 154] that value.

Recommendation One: Ensure that indexation of Australian Government funding is linked to a robust measure of the cost of education

Allocating Funding to Individual Schools

A focus on the indexation arrangements that apply to the quantum of funding available for all Australian schools has very little relevance when calculating the funding allocated to an individual school in 2018. Australian schools are currently in the third year of their transition from their 2013 funding allocations towards their notional entitlements under the pure, new funding model. In addition, the funding model inherently assumes that the relevant state or territory government will also allocate funding using the same distribution mechanism. However, this is not the case. As such, there is little relevance in talking about an individual

school's funding allocation under 'the model' when every school in Australia is following a different transition path that, for most schools, is much more a product of their historical funding allocation than of their notional funding entitlement under the model.

While the Australian Government has indicated that it would index the quantum of funding for schools as a whole by CPI beyond 2017, it is not yet clear how this funding would be allocated between individual schools. It occurs to ISV that there are three likely possibilities:

- the funding for each individual school as at 2017 is indexed by CPI
- the existing funding model is retained (albeit with possible minor amendments), and the CPI indexation rate is applied to the indexation of the Schooling Resource Standard
- substantial changes are made to the existing funding arrangements, and the CPI indexation rate is built into this new funding model.

Applying CPI indexation to individual schools' funding

Under this option, the funding that each school in Australia received in 2017 would become the benchmark for future funding allocations. From this point, each school's funding would only vary because of general cost indexation and changes in that school's enrolments. This option is problematic in a model that was designed to be nationally consistent. As identified in the ISCA submission, many Australian schools would be at different points in their transition towards their notional funding entitlements in 2017. Those schools that are 'below the SRS' would continue to be under-funded relative to the identified need of students, while those schools that are 'above the SRS' would continue to receive more funding than that to which they are entitled under the model. The greater the gap between a school's notional funding under the pure model and the amount that it would receive in 2017 as part of the transition arrangements, the more that the school would be over-funded or under-funded under these arrangements.

Questions may remain about how best to measure student need. Nonetheless, once a level of student need had been determined, funding from the Australian Government should be provided to all schools on the same basis, so that it is both equitable and consistent. In line with the funding principles identified by ISCA, ISV would recommend that Australian Government funding arrangements provide consistent funding for all schools across Australia.

Recommendation Two: Provide funding on a consistent and equitable basis, by not indexing individual schools' funding simply by CPI

Applying CPI indexation to the Schooling Resource Standard

At the moment, the *Australian Education Act 2013* specifies that the SRS be indexed annually by 3.6 per cent, and the National Education Reform Agreement outlines that the Australian Government will index its share of the funding under the model by 4.7 per cent per annum. Given that many of the state and territory governments are not implementing the national funding model in their own funding allocations to schools, the Australian Government could decide that it would index the funding model by CPI.

An inherent part of the transition arrangements that apply in the current model is that schools that are 'above the SRS' receive a positive, but lower, rate of indexation than other schools. For such proviso to work under this option, the Australian Government would need to provide some schools with indexation at higher than CPI, offset by the provision to other schools of indexation at lower than CPI. However, this would result in an even greater loss to the latter group of schools in real terms than simply funding all schools at CPI. With no link to

a robust measure of education costs, there is also no guarantee that such arrangements would see real funding increases for those schools receiving higher rates of indexation.

Applying CPI indexation to a substantially changed funding model

The third option for the Australian Government would be to substantially change the funding model. In addition to the problems listed above, this option would create substantial uncertainty for schools, as their ability to budget for 2018 and beyond would be minimal. Even were the Australian Government to decide that it was appropriate to make substantial changes to the funding model, ISV believes that schools would need sufficient notice of such changes so that they could plan and budget appropriately. This would be very difficult to achieve if the changes were to be introduced in 2018.

Recommendation Three: If the Australian Government intends to make any changes to the funding model, provide schools with sufficient notice of the impact at the individual school level

Implications for categories of students of indexing funding by CPI from 2018

ISV does not believe that the impact of indexing funding by CPI should focus on any particular category of students. Those categories of students which will experience the greatest opportunity cost from a change of funding beyond 2017 would depend on the share of the Australian Government's funding model targeted towards their particular needs, relative to the amount of funding that the Australian, state and territory governments previously provided to the school. This is a product of the transition arrangements implemented in the model, varies from school to school and state to state, and is much more strongly linked to historical funding trends than to absolute levels of need.

So, for instance, students in regional, rural and remote schools in states and territories that traditionally had a greater weighting for school location within their funding arrangements would experience less opportunity cost than students in states and territories which traditionally provided a lower weighting, all other things being equal. However, the same would equally apply to students in regional, rural and remote schools in states that historically provided higher total funding to schools, regardless of the relative importance of funding for rurality within the funding mechanisms.

It is true that schools and students in regional, rural and remote areas face higher costs to access a quality education. It is also true that acquiring appropriate job skills is an important element of school education. However, there is no reason to suppose that the rate of growth in the cost of delivering education for these schools and students will automatically be more or less than for any other schools and students.

ISV believes that key issue of concern is that funding schools according to CPI would result in opportunity costs for all Australian students, and could result in real decreases in funding for all Australian schools.

Related Matters

The Terms of Reference to this inquiry have focused on the method by which the quantum of funding is calculated. When determining funding allocations for schools, the other side of the equation is to consider the architecture of the model used to allocate that quantum of funding.

ISV does not believe that it is appropriate to throw out the current funding model and start again. We support the basic architecture of the current school funding arrangements, which provides base funding for all schools plus additional loadings for particular categories of educational need. We also welcome the provision of 100 per cent of the loadings amounts to all Australian schools, regardless of sector.

However, we do believe that improvements can be made to the existing funding arrangements, in order to make the model sustainable into the future. Our submission to the Senate Select Committee on School Funding's Inquiry into National School Funding Arrangements and School Reform in March 2014 outlined many of these concerns, when we recommended that the Australian Government:

- remove the increased funding for concentration of disadvantage in the low SES loading, and replace it with a flat amount per student.
- remove the increased funding for concentration of disadvantage in the Indigenous loading, and replace it with a flat amount per student.
- reduce the proportion of funding allocated to student socioeconomic disadvantage.
- allocate Commonwealth funding equitably to all Australian schools, regardless of the state or territory in which the school is located.
- continue to provide government capital funding to Block Grant Authorities to support non-government schools.
- remove funding for students with disability from the pool of general recurrent funding and allocate it as a sector-based targeted program.
- apply regulations regarding the use of recurrent funding for capital purposes equally to all schools.

Other aspects of the current funding arrangements which need to be clarified include:

- the role of the states and territories in the funding model
- the fiscal sustainability of the funding model
- funding arrangements beyond 2019.

The role of the states and territories

When the funding model was proposed by the Review Panel, and implemented in 2013, it was predicated on the idea that the state and territory governments would allocate funding to schools using the same funding mechanism. Thus, while the funding model would calculate the same notional total funding entitlement for two schools in separate jurisdictions with identical enrolment profiles, the amounts that the two schools would actually receive from the Australian Government will vary, simply because they are located in different jurisdictions¹.

¹ Unless both schools are 'At SRS', the actual situation is further complicated by transition arrangements, which cause additional variation at the individual school level.

The original intention of the Review Panel was that, since the state and territory governments would be making up the difference in the funding model, the net impact on individual schools would be zero. However, as most states and territories are not using the Commonwealth funding mechanisms, the funding arrangements are not producing horizontally equitable outcomes. This calls into the question the very concept of a national funding model.

Moreover, were the Australian Government to decide to implement the first of the three possibilities identified above, and index the funding for each individual school by CPI, these cross-jurisdictional differences would become permanently entrenched. In effect, Australian Government funding to schools would become a product of the amount of funding that the schools had received from their state or territory government in 2013.

Fiscal sustainability

ISV believes that it is important that all levels of government provide sufficient funding to all Australian schools to ensure that all Australian students are able to receive a high-quality education. In particular, more funding should be provided to support the needs of students with disability in schools.

However, any funding arrangements must be sustainable in the longer term. It would not be in schools' or students' interests for governments to provide larger amounts of funding in the short-term, only to take the funding away in the longer-term. Governments must ensure that funding for school education can be adequately met from the tax base. As part of these considerations, government would also need to remember that the burden on Australian taxpayers is reduced significantly by the existence of a vibrant non-government sector, a significant proportion of which is funded by the private, post-tax income of individual families.

Funding arrangements beyond 2019

ISV recognises that the recent announcement made by the Leader of the Federal Australian Labor Party, committing to implement years five and six of the transition arrangements for the funding model, provides greater certainty for schools in their planning and budgeting for 2018 and 2019, as well as most likely leading to additional funding for schools in those two years.

However, the ALP has not yet announced specific details about what would happen to funding arrangements beyond 2019. Under the current transition arrangements, by 2019, schools that are 'Below the SRS' are expected to have reached, on average, 95 per cent of their full entitlement under the funding model. Meanwhile, modelling suggests that some schools that are 'Above the SRS' may take well over a century to move out of transition.

ISV calls on all political parties to provide as much information, as soon as possible, and as far into the future as possible, regarding their intentions for future funding arrangements, and the impact that these arrangements would have on the funding allocations for individual schools. This greater certainty would enable all schools to plan appropriately, and ensure that they can maximise the educational opportunities for individual schools.

Recommendation Four: All political parties announce their detailed school education funding policies prior to the 2016 federal election

References

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