



Australian Government



Review of Funding for Schooling

Final Report | December 2011

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Acronyms and abbreviations

ABS	Australian Bureau of Statistics
ACARA	Australian Curriculum Assessment and Reporting Authority
AEDI	Australian Early Development Index
AGSRC	Average Government School Recurrent Costs
AIME	Australian Indigenous Mentoring Experience
AQF	Australian Qualifications Framework
BERIT	Building the Education Revolution Implementation Taskforce
BER CAM	Building the Education Revolution Cost Analysis Model
BGA	Block Grant Authority
CD	Collection District
COAG	Council of Australian Governments
COPE	Commonwealth own-purpose expense
CPI	Consumer Price Index
DEEWR	Department of Education, Employment and Workplace Relations
DGR	deductible gift recipient
DSE	Disability Standards for Education
ERI	Education Resources Index
ESCS	(index of) economic, social and cultural status
ESL	English as a second language
GDP	gross domestic product
GST	goods and services tax
ICSEA	Index of Community Socio-Educational Advantage
ICT	information and communications technology
LBOTE	language background other than English
LPI	Labour Price Index
MCEECDYA	Ministerial Council for Education, Early Childhood Development and Youth Affairs
MCEETYA	Ministerial Council on Education, Employment, Training and Youth Affairs
Melbourne Declaration	Melbourne Declaration on Educational Goals for Young Australians
NAPLAN	National Assessment Program—Literacy and Numeracy
NRIPS	net recurrent income per student
OECD	Organisation for Economic Co-operation and Development
P&C associations	parents and citizens' associations
PALL	Principals as Literacy Leaders
PISA	Programme for International Student Assessment
SEA	socio-educational advantage
SES	socioeconomic status
SPP	Specific Purpose Payment
TAFE	Technical and Further Education
TIMSS	Trends in International Mathematics and Science Study
VET	vocational education and training



Australian Government

Review of Funding for Schooling

The Hon Peter Garrett AM MP
Minister for School Education, Early Childhood and Youth
Parliament House
CANBERRA ACT 2600

Dear Minister

On 15 April 2010, the then Federal Minister for Education, the Hon Julia Gillard MP, initiated a review of funding arrangements for schooling to develop a funding system which is transparent, fair, financially sustainable and effective in promoting excellent educational outcomes for all Australian students.

The review's terms of reference require the review to report to the Federal Minister with responsibility for school education. Accordingly, on behalf of the panel leading the review, I am pleased to present our final report, *Review of Funding for Schooling: Final Report*.

The review process has spanned many months and attracted immense public interest. More than 7000 written submissions have been provided to the review, and the panel has met with hundreds of professionals and stakeholders in the school education community.

We have been heartened by the strong and passionate interest in school education that has been evident throughout the review process. I would like to take this opportunity to thank everyone who contributed to the review, particularly the stakeholders who were so generous with their time in meeting with the panel.

I also express my gratitude to my colleagues on the panel; Ken Boston AO, Kathryn Greiner AO, Carmen Lawrence, Bill Scales AO, and Peter Tannock AM. Terrey Arcus AM also provided invaluable support to the panel and I thank him.

From commencement the panel was blessed with an excellent secretariat and we are most grateful. I thank Madonna Morton who initially led and established the team. Louise Hanlon, who has led the secretariat from April 2011 to completion of the report, should be congratulated on her outstanding leadership.

The panel has been conscious of delivering a comprehensive response to our terms of reference that would allow you and the Australian Government time to consider the changes you wish to make for funding arrangements for schooling in Australia for the period beyond 2013.

The panel is strongly of the view that the proposed funding arrangements outlined in the report are required to drive improved outcomes for all Australian students, and to ensure that differences in educational outcomes are not the result of differences in wealth, income, power or possessions.

Yours sincerely

David Gonski AC

Chair

Executive summary

High-quality schooling fosters the development of creative, informed and resilient citizens who are able to participate fully in a dynamic and globalised world. It also leads to many benefits for individuals and society, including higher levels of employment and earnings, and better health, longevity, tolerance and social cohesion.

Overall, Australia has a relatively high-performing schooling system when measured against international benchmarks, such as the Programme for International Student Assessment. However, over the last decade the performance of Australian students has declined at all levels of achievement, notably at the top end. This decline has contributed to the fall in Australia's international position. In 2000, only one country outperformed Australia in reading and scientific literacy and only two outperformed Australia in mathematical literacy. By 2009, six countries outperformed Australia in reading and scientific literacy and 12 outperformed Australia in mathematical literacy.

In addition to declining performance across the board, Australia has a significant gap between its highest and lowest performing students. This performance gap is far greater in Australia than in many Organisation for Economic Co-operation and Development countries, particularly those with high-performing schooling systems. A concerning proportion of Australia's lowest performing students are not meeting minimum standards of achievement. There is also an unacceptable link between low levels of achievement and educational disadvantage, particularly among students from low socioeconomic and Indigenous backgrounds.

Funding for schooling must not be seen simply as a financial matter. Rather, it is about investing to strengthen and secure Australia's future. Investment and high expectations must go hand in hand. Every school must be appropriately resourced to support every child and every teacher must expect the most from every child.

The task of the panel

The review was established to develop a funding system for Australian schooling which is transparent, fair, financially sustainable and effective in promoting excellent outcomes for all Australian students.

The panel acknowledges that schools contribute to a much broader range of outcomes for students than those currently measured by governments and which receive the greatest attention in this report. Likewise, parents choose to send their children to a particular school on the basis of more than academic results. For the purpose of this report and to adhere to the terms of reference, the panel has focused on funding for schooling and its impact on outcomes as they are currently measured by governments both nationally and internationally.

The panel considered the funding needs of students from all schools across the government, Catholic and independent school sectors. It considered the current arrangements for providing Australian Government and state and territory funding to schools, as well as other sources of school income.

In addition, the panel reflected on the forms of accountability employed by the schooling sectors, as well as the data required to monitor and assess standards of delivery and educational outcomes.

The task of understanding and responding to the challenges of the current funding arrangements for schooling is complex. There are significant differences in the way Australian schools are organised across sectors, as well as differences in the demographics of the student bodies and the challenges faced by sectors and states.

There are also differences in the way schools are funded by the Australian Government and state and territory governments across sectors and states, including different approaches to supporting educationally disadvantaged students. Further, there is not a consistent approach across states and territories to collecting and reporting data on certain student cohorts, nor on the effectiveness of funding in meeting the educational needs of students.

The panel has concluded that Australia must aspire to have a schooling system that is among the best in the world for its quality and equity, and must prioritise support for its lowest performing students. Every child should have access to the best possible education, regardless of where they live, the income of their family or the school they attend. Further, no student in Australia should leave school without the basic skills and competencies needed to participate in the workforce and lead successful and productive lives. The system as a whole must work to meet the needs of all Australian children, now and in the future.

The panel believes that the key to achieving this vision is to strengthen the current national schooling reforms through funding reform.

The foundations for change

Over recent years, a number of historic steps have been made to improve Australia's schooling system. In December 2008, the Australian Government and state and territory Education Ministers released the *Melbourne Declaration on Educational Goals for Young Australians* (Melbourne Declaration), setting out the national purpose and policy for Australian schooling for the next 10 years. The goals focus on promoting equity and excellence in schooling, and on young Australians becoming successful learners, confident and creative individuals, and active and informed citizens. Central to realising these goals is providing all students with access to high-quality schooling.

National priorities and reforms have also been agreed by all governments through the Council of Australian Governments to progress the national goals. Key policy directions under the National Education Agreement include improving teacher quality and school leadership, greater accountability and better directed resources, integrated strategies for low socioeconomic school communities, and improving the outcomes of Indigenous students. National curriculum is being developed to set clear achievement standards for all students. The *My School* website is providing public access to information about school performance and resources.

While these reforms lay a good foundation for addressing Australia's schooling challenges, they need to be supported by an effective funding framework.

Australia needs effective arrangements for funding schools across all levels of government—arrangements that ensure resources are being provided where they are needed. The funding arrangements should be aimed at achieving an internationally competitive high standard of schooling, where outcomes are not determined by socioeconomic status or the type of school the child attends, and where the Australian Government and state and territory governments work in partnership to meet the schooling needs of all Australian children.

Issues with the current funding arrangements

When considered holistically, the current funding arrangements for schooling are unnecessarily complex, lack coherence and transparency, and involve a duplication of funding effort in some areas. There is an imbalance between the funding responsibilities of the Australian Government and state and territory governments across the schooling sectors.

There is a distinct lack of coordination in the way governments fund schooling, particularly in relation to directing funding to schools based on student need across jurisdictions and sectors.

There is also a significant overlap in the funding priorities of the Australian Government and state and territory governments. The overlap leads to duplication and inefficiency, and makes it difficult for governments and policy makers to decide how best to fund the needs of school systems and schools.

It is not always clear which level of government is providing funding, nor what role the Australian Government and state and territory governments should play in funding particular educational priorities.

Not all states and territories have the same capacity to fund their school systems adequately. It would appear that some, due to current economic realities or the need to support a larger share of educationally disadvantaged students, struggle to provide the resources needed in schools.

Historically, the states and territories are the primary funders of government schools and the Australian Government is the primary funder of non-government schools. These roles are divisive within significant parts of the Australian community because they can give the false and misleading impression of a preference by the Australian Government for non-government schools over government schools, and a corresponding false and misleading view of neglect by state and territory governments of the funding needs of non-government schools.

Australian Government funding arrangements for government schools, and for non-government schools under the socioeconomic status funding model, are based on an outdated and opaque average cost measure, the Average Government School Recurrent Costs. As such, the funding that is provided to schools does not directly relate to schooling outcomes, and does not take into account the full costs of educating students to an internationally accepted high standard of schooling.

Indexation arrangements are also unclear and vary between states and territories. The indexation of Australian Government funding for non-government schools is related only to the annual increase in the costs of schooling within the government sector, and is not related to cost increases in all schooling sectors.

Funding for school capital and infrastructure is uncoordinated and lacks planning. Many schools, particularly those in the government sector, are suffering from a lack of capital investment. This impacts on the educational opportunities afforded to the students, as well as the attitudes and morale of students, parents and the broader community.

To address these longstanding deficiencies with Australia's funding arrangements for schooling, the panel has made a number of significant and far-reaching recommendations for a future funding system for Australian schools.

A new funding approach

The panel believes that a significant increase in funding is required across all schooling sectors, with the largest part of this increase flowing to the government sector due to the significant numbers and greater concentration of disadvantaged students attending government schools.

Funding arrangements for government and non-government schools must be better balanced to reflect the joint contribution of both levels of government in funding all schooling sectors. They must also be better coordinated so that funding effort can be maximised, particularly effort to improve the educational outcomes of disadvantaged students.

A new schooling resource standard

The panel recommends that all recurrent funding for schooling, whether it is provided by the Australian Government or state and territory governments, be based on a new schooling resource standard.

The schooling resource standard would:

- form the basis for general recurrent funding for all students in all schooling sectors
- consist of separate per student amounts for primary school students and secondary school students
- provide loadings for the additional costs of meeting certain educational needs. These loadings would take into account socioeconomic background, disability, English language proficiency, the particular needs of Indigenous students, school size, and school location
- be based on actual resources used by schools already achieving high educational outcomes for their students over a sustained period of time
- recognise that schools with similar student populations require the same level of resources regardless of whether they are located in the government, Catholic or independent school sectors
- be periodically reviewed every four years so that it continues to reflect community aspirations and, in between reviews, be indexed using a simple measure that is based on the actual increase in costs in schools already achieving the relevant high educational outcomes over a sustained period of time.

Further collaborative work involving all governments and sectors will be required to settle the levels of the schooling resource standard per student amounts and loadings in the lead-up to implementation from 2014. Ongoing responsibility for indexing and reviewing the resource standard should be entrusted to an independent and expert National Schools Resourcing Body.

A fairer funding framework

The per student amount plus loadings would represent the total resources required by a school to provide its students with the opportunity to achieve high educational outcomes for their students over a sustained period of time. It would be funded from public funding from all levels of government, as well as any private sources.

In recognition of the role of the government sector as a universal provider of schooling, all government schools would be fully publicly funded to the level of the schooling resource standard plus any applicable loadings.

In the non-government sector, public funding would generally be provided based on the anticipated level of a school's private contribution. The private contribution anticipated for a school would be initially based on the socioeconomic status (SES) score of the school, reflecting the capacity of the school community to support the school. Work would commence as a priority to develop, trial and implement a more precise measure of capacity to contribute.

A minimum private contribution of at least 10 per cent of the schooling resource standard per student amounts would be anticipated for non-government schools in the lowest quarter of school SES scores, that is, with a score up to between 90 and 95. A maximum private contribution of up to between 75 and 80 per cent would be anticipated for schools with an SES score above around 130.

Some non-government schools would be fully publicly funded where they serve students or communities with very high levels of need, for example, special schools, majority Indigenous schools, and remote 'sole provider' schools.

On the basis of the Australian Government's announcement that under a new funding arrangement no school would lose a dollar per student as a result of this review, the panel has recommended that a minimum public contribution per student for every non-government school be applied, set at between 20 and 25 per cent of the schooling resource standard excluding loadings. Detailed transitional arrangements will need to be developed once schooling resource standard per student amounts and loadings are settled.

A more balanced alignment of public funding responsibilities for government and non-government schools should be negotiated between the Australian Government and the states and territories as part of the transition to a new funding model. The Australian Government should assume a greater role in the funding of government schools. Similarly, the states and territories should assume a greater role in relation to non-government schools within a framework that provides them with the resources to assume this greater role and gives all schools certainty and stability around future funding levels.

The additional costs of supporting students with disability should be included as a loading in the schooling resource standard once nationally consistent data on student numbers and adjustment levels becomes available. This loading for students with disability would be fully publicly funded as an entitlement in all schools regardless of sector.

Public funding for school systems would be provided to system authorities for distribution to their schools. There would be an expectation that systems would be publicly accountable for their decisions on the redistribution of that funding. Non-systemic schools would receive funding directly from governments.

There is also potential for all Australian schools, especially in the government sector, to connect with philanthropic partners to deliver time, money and expertise to schools. Nationally, better arrangements are required for schools and donors to make these connections.

Better coordination of infrastructure

To complement the recurrent schooling resource standard, there is a need for an expanded stream of Australian Government capital funding for both the government and non-government sectors.

For existing schools, Australian Government capital funding should be made available to schools through grants for specific major works and infrastructure projects. Grants should be selected according to guidelines and managed by relevant bodies in the government and non-government sectors.

In relation to new schools and major school expansions, there is a need for a more coordinated approach to planning. The panel recommends this should be carried out by new, cross-sectoral School Planning Authorities in each jurisdiction. Access to Australian Government capital funding through a School Growth Fund would be conditional on approval of the project by the relevant School Planning Authority. The funding amount provided under this fund would need to be developed following an assessment of demand and need in each state and territory.

There is also a need for greater transparency and accountability for the condition of school infrastructure in Australia. This will be facilitated by the operation of the School Planning Authorities in each jurisdiction, as well as work by the National Schools Resourcing Body to develop expected standards to which buildings must be maintained and built, and greater monitoring and reporting on the condition of school infrastructure in all sectors and states.

National Schools Resourcing Body

The panel's framework for funding schooling requires a more sophisticated approach to governance of Australia's schooling system. In particular, the effectiveness of the schooling resource standard rests on confidence in the independence and transparency of the process for setting the per student amounts and loadings.

The panel recommends the establishment of an independent National Schools Resourcing Body that will form the core of the governance necessary to ensure that funding for schooling is provided in a way that maximises its educational impact.

The National Schools Resourcing Body will be responsible for the ongoing development and maintenance of the schooling resource standard and loadings to ensure that they remain contemporary and aspirational. The panel considers that it should have the necessary expertise, independence and budget to support its roles. The body would also be required to commission and undertake research and analysis that will further current thinking on how to measure effectiveness in schooling. This will necessitate significant improvements in the collection of nationally comparable data. It will ensure that the funding framework continues to be developed and enhanced through solid evidence and intellectual rigour.

Stronger governance and accountability

The panel recognises that its reforms will require the support and commitment of all Australian governments. The existing framework of intergovernmental agreements on schooling should be revised to ensure that it meets the requirements of the new funding framework and reflects the renegotiated roles and responsibilities of funding partners. This should also include the development of state and territory bilateral agreements with the Commonwealth that reflect specific funding and educational requirements in jurisdictions. Funding agreements with non-government system authorities and independent schools should likewise be amended to reflect changed roles and conditions, as well as provide greater funding certainty through 12-year funding agreements.

School systems play a valuable role in funding and supporting schools and should continue to play a significant role in the detailed allocation of block funding from governments to their member schools. However, there should be an expectation that systems will be publicly accountable for their decisions on the distribution of funding.

The required additional investment

On the basis of the determinations made by the panel for the purposes of the modelling, the results indicated that if these arrangements had been implemented in full during 2009, the additional cost to governments would have been about \$5 billion or around 15 per cent of all governments' recurrent funding for schooling that year.

Based on its current proportion of total funding, the Australian Government would bear around 30 per cent of the increase. How the additional cost is actually borne will need to be discussed and negotiated between all governments.

Transition

The panel acknowledges that governments will need to work collaboratively to finalise the necessary details, funding responsibilities and transition arrangements.

Conclusion

The panel accepts that resources alone will not be sufficient to fully address Australia's schooling challenges and achieve a high-quality, internationally respected schooling system. The new funding arrangements must be accompanied by continued and renewed efforts to strengthen and reform Australia's schooling system.

Australia's schools, government and non-government, should be staffed with the very best principals and teachers, those who feel empowered to lead and drive change, and create opportunities for students to learn in new ways to meet their individual needs. Classrooms should support innovative approaches to learning, not only through the curriculum, technologies and infrastructure, but also through the culture of the school. Principals and teachers should encourage a culture of high expectations, continuous learning, and independence and responsibility for all students. They should also forge connections with parents and the community, as key partners in children's learning and attitudes to school.

For these practices to be championed in every school, the Australian Government and state and territory governments must continue to work together, in consultation with the non-government school sector, to progress the current school reform agenda.

Australia and its children and young people, now and in the future, deserve nothing less.

Recommendations

Recommendation 1

The Australian Government and the states and territories, in consultation with the non-government sector, should develop and implement a schooling resource standard as the basis for general recurrent funding of government and non-government schools. The schooling resource standard should:

- reflect the agreed outcomes and goals of schooling and enable them to be achieved and improved over time
- be transparent, defensible and equitable and be capable of application across all sectors and systems
- include amounts per primary and secondary student, with adjustments for students and schools facing certain additional costs
- complement and help drive broader schooling reform to improve Australia's overall performance and reduce inequity of outcomes.

Recommendation 2

In a new model for funding non-government schools, the assessment of a non-government school's need for public funding should be based on the anticipated capacity of the parents enrolling their children in the school to contribute financially towards the school's resource requirements.

Recommendation 3

For the purposes of allocating public funding for non-government schools, the Australian Government should continue to use the existing area-based socioeconomic status (SES) measure, and as soon as possible develop, trial and implement a new measure for estimating the quantum of the anticipated private contribution for non-government schools in consultation with the states, territories and non-government sectors.

Recommendation 4

From 2014, non-government schools should be funded by the Australian Government on the basis of a common measure of need that is applied fairly and consistently to all.

Recommendation 5

The Australian Government and the states and territories, in consultation with the non-government school sector, should make reducing educational disadvantage a high priority in a new funding model. This will require resourcing to be targeted towards supporting the most disadvantaged students and should:

- capture variation in performance within categories of disadvantaged students
- significantly increase support to schools that enrol students who experience multiple factors of disadvantage
- significantly increase support to schools that have high concentrations of disadvantaged students.

Recommendation 6

In contributing towards the additional costs of educating disadvantaged students, governments should move away from funding targeted programs and focus on ensuring that the states and territories and the non-government sector are publicly accountable for the educational outcomes achieved by students from all sources of funding.

Governments should continue to contribute towards the costs of educating disadvantaged students by providing recurrent funding that provides additional assistance for:

- students where the need for assistance is ongoing and reasonably predictable
- schools with the highest concentrations of students who need support to achieve improved educational outcomes.

Recommendation 7

Future funding arrangements and governance structures for schooling should aim for sustained improvements in the educational outcomes of disadvantaged students, as part of achieving better outcomes for all students. To achieve this, additional funding provided to schools to overcome disadvantage should be invested in strategies that:

- improve practices for teaching disadvantaged students
- strengthen leadership to drive school improvement
- focus on early intervention for students at risk of underperformance
- are flexibly implemented to address local needs
- encourage parent and community engagement
- are based on robust data and evidence that can inform decisions about educational effectiveness and student outcome.

Recommendation 8

The Australian Government, in collaboration with the states and territories and in consultation with the non-government sector, should develop and implement a new funding model for schools based on the principles of:

- fair, logical and practical allocation of public funds
- funding in response to need
- funding from all sources must be sufficient
- support for a diverse range of schools
- driving broader school reform
- partnership between governments and across sectors
- transparency and clarity
- value for money and accountability.

Recommendation 9

The Australian Government, in collaboration with the states and territories and in consultation with the non-government sector, should:

- initially base the per student component of the resource standard on an outcomes benchmark that at least 80 per cent of students in reference schools are achieving above the national minimum

standard, for their year level, in both reading and numeracy, across each of the three most recent years of NAPLAN results

- conduct additional research to validate the composition of the reference group used for setting the per student amounts to apply from 2014 onwards
- broaden over time the scope of student outcomes covered in the benchmark to include other nationally consistent, whole-of-cohort measures
- review regularly the scope, methodology and data required to set the student outcomes benchmark.

Recommendation 10

The schooling resource standard should:

- be a recurrent resource standard, which includes a provision for general maintenance and minor acquisitions below an established capitalisation threshold but does not include capital costs
- include the full costs of delivering schooling services regardless of whether these are delivered in an independent school or a systemic school
- exclude adjunct service costs.

Recommendation 11

The Australian Government should negotiate with state and territory governments and consult with the non-government sector with a view to implementing a national schooling resource standard that allows flexibility in how it is applied across jurisdictions. This process should be guided by the following principles:

- the states and territories should have an incentive to take part in new funding arrangements
- the states and territories and the Australian Government should share any efficiencies in the provision of education on the basis of the schooling resource standard
- no state or territory should be disadvantaged in relation to Commonwealth Grants Commission or GST allocations as a result of their cooperation with the Australian Government in implementing the schooling resource standard.

Recommendation 12

The schooling resource standard should be used by the Australian Government as the basis for determining its total recurrent funding for government and non-government systems and schools and for the allocation of that funding across systems and schools. It should also be adopted by the states and territories to guide their total recurrent funding for government and non-government schools and the allocation of that funding to individual non-government systems and schools.

Recommendation 13

The Australian Government should work with the states and territories and the non-government sector to further refine the indicative schooling resource standard amounts for primary and secondary students. This should occur by mid-2012 to facilitate negotiations over the implementation of the new funding arrangements for schools. This work should commence immediately with the National Schools Resourcing Body to take responsibility for progressing it as soon as it is established.

Recommendation 14

The schooling resource standard should include loadings for:

- school size and location
- the proportion of students in a school who are Indigenous or from low socioeconomic backgrounds, with loadings to increase for schools where the concentration of such students is higher
- the proportion of students in a school with limited English language proficiency.

Loadings for students with disability should be added as soon as possible once work underway on student numbers and adjustment levels is completed. The Australian Government should work with the states and territories and the non-government sector to develop and check specific proposed loadings by mid-2012.

Recommendation 15

Schooling resource standard per student amounts applying in 2014 should thereafter be indexed annually based on actual changes in the costs of schooling incurred by reference schools. Both the per student amounts and the loadings should be reviewed by the National Schools Resourcing Body before the commencement of each funding quadrennium. Indexation and review should occur within an institutional framework that ensures that the process is independent, transparent and rigorous.

Recommendation 16

Australian governments should fully publicly fund the recurrent costs of schooling for government schools as measured by the resource standard per student amounts and loadings.

Recommendation 17

Australian governments should base public funding for most non-government schools on the anticipation that the private contribution will be at least 10 per cent of the schooling resource standard per student amounts.

Recommendation 18

Australian governments should fully publicly fund the recurrent costs of schooling for non-government schools as measured by the resource standard per student amounts and loadings where the school:

- does not charge compulsory fees and has no real capacity to do so, or
- provides education to students with very high needs, such that without full public funding of the school's resource standard those needs would not be met.

The eligibility of particular non-government schools for full public funding should be determined by the National Schools Resourcing Body.

Recommendation 19

To meet the Australian Government's announcement that no school will lose a dollar per student as a result of this review, a minimum public contribution towards the cost of schooling should apply to non-government schools at a level between 20 to 25 per cent of the resource standard per student amounts without loadings.

Recommendation 20

For the purposes of allocating public funding for non-government schools and systems, all Australian governments should:

- adopt a common concept of need for public funding based on the capacity of the school or system to contribute towards its total resource requirements
- commence work as a priority to develop, trial and implement a better measure of the capacity of parents to contribute in consultation with the non-government sectors.

The Australian Government should continue using the existing area-based SES measure until this better measure is developed.

Recommendation 21

For the purposes of allocating public funding for non-government schools, the minimum private contribution should be anticipated for schools with SES scores in the lowest quarter of scores. The minimum public contribution should apply to schools with SES scores above around 130. The precise school SES scores and the shape of the anticipated private contribution between these two points should be set in a way that balances:

- minimising the extent and incidence of any differences between the schooling resource standard required by each non-government school and system and the resources currently available to it from all sources
- preserving reasonable incentives for an adequate private contribution towards the schooling resource standard across non-government schools with various capacities to contribute.

Recommendation 22

The Australian Government and the states and territories, in consultation with the non-government sector, should negotiate more balanced funding roles as part of the transition to a new funding model for all schools, with the Australian Government assuming a greater role in the funding of government schools and the states in relation to non-government schools. This should occur within a governance framework that gives certainty and stability around expected future funding levels for schools from all government sources and operational independence for non-government schools.

Recommendation 23

Given the primary responsibility of government and non-government system authorities for the funding and operation of their schools, public funding for systems should be assessed and calculated at system level provided that systems:

- are transparent about the basis on which they allocate any public and private funding to member schools and the purpose for which it is spent
- report publicly when the allocation of total resources to schools deviates significantly from the principles in the schooling resource standard
- continue to report income and expenditure from each source for individual member schools on the *My School* website.

Recommendation 24

In establishing a baseline level of existing funding for the schooling resource standard and loadings, the Australian Government should roll in, to the maximum possible extent, all general recurrent funding for schools as well as targeted funding programs for non-government schools and National Partnerships, subject to appropriate transitional arrangements.

Recommendation 25

In order to successfully implement the funding reforms in this report, the Australian Government should, in collaboration with state and territory governments and in consultation with the non-government sector, develop transitional arrangements that:

- provide certainty to systems and schools about funding during the implementation period, consistent with the Australian Government's announced commitments
- recognise the need for extensive negotiation involving all governments and non-government school authorities along with associated changes to agreements and legislation
- acknowledge the fiscal pressures on governments while moving to reap the benefits of a more outcomes-driven approach to funding as quickly as possible.

Recommendation 26

The Australian Government and state and territory governments, in consultation with the non-government sector, should, as a matter of priority, progress work on collecting nationally consistent data on students with disability and the level of educational adjustments provided to them to enable national data to be collected and reported from January 2013.

Recommendation 27

The National Schools Resourcing Body should work with the Australian Government and state and territory governments in consultation with the non-government sector to develop an initial range for a student with disability entitlement. The entitlement should be:

- provided in addition to the per student resource standard amounts
- set according to the level of reasonable educational adjustment required to allow the student to participate in schooling on the same basis as students without disability
- fully publicly funded and applied equally to students in all schooling sectors.

Recommendation 28

The National Schools Resourcing Body should undertake work to determine the resourcing needs of government and non-government special schools catering for students with disability.

Recommendation 29

Funding for capital purposes should be available to both government and non-government systems and schools outside of the framework of a recurrent schooling resource standard.

Recommendation 30

School Planning Authorities with government and non-government sector representation should be established within each jurisdiction and work to develop a coordinated approach to planning for new schools and school growth.

The Australian Government should establish a School Growth Fund for new schools and major school expansions, with the School Planning Authorities solely responsible for the approval of funding to projects.

Recommendation 31

Australian Government investment in non-government school infrastructure should be maintained and continue to be provided in partnership with relevant Block Grant Authorities.

The Australian Government should provide an additional amount of funding to support major works and infrastructure in existing government schools in each state and territory.

Recommendation 32

The National Schools Resourcing Body should develop a national definition of the maintenance and minor works responsibilities of schools and education authorities required to be addressed from recurrent funds. This definition should be considered and agreed by the Australian and state and territory governments as a basis for capital and recurrent funding arrangements.

Recommendation 33

The Australian and state and territory governments should, in consultation with the non-government sector, strengthen public accountability for the public funding of school capital projects.

Recommendation 34

School Infrastructure Development Grants and the School Growth Fund should be supplemented annually in line with movements in the Producer Price Index – Non-Residential Building Construction.

Recommendation 35

The Australian Government and state and territory governments should establish a National Schools Resourcing Body. This body would be made responsible for a range of tasks including:

- the ongoing maintenance and development of the schooling resource standard and loadings
- the annual indexation and periodic review of the schooling resource standard and loadings based on the latest available data
- ongoing research, analysis and data improvement to ensure continuous improvement within the schooling sector
- developing expected standards to which school buildings must be maintained and built.

Members would be appointed to the body on the basis of merit and expertise, and be independent of government. The body should be provided with a realistic operational budget funded by all governments to support the commissioning of research and data work as appropriate.

Recommendation 36

In establishing a National Schools Resourcing Body, the Australian Government and state and territory governments should also establish a representative advisory group to provide advice to the body on schooling matters. Membership should include representatives from both the government and non-government school sectors.

Recommendation 37

The current National Education Agreement should be revised to ensure that it meets the requirements of the new funding framework and reflects the renegotiated roles and responsibilities of funding partners. This should also include the development of state and territory based schedules attached to the revised agreement that reflect specific funding and educational requirements of that jurisdiction.

Recommendation 38

The Australian Government and state and territory governments should negotiate revised funding agreements with non-government system authorities and independent schools to reflect roles and additional conditions under the new funding framework and in line with a renegotiated National Education Agreement with state and territory based schedules.

Recommendation 39

The Australian Government and state and territory governments should legislate the proposed funding framework to ensure certainty and transparency of public funding for all systems and schools. Legislation at both levels of government should operate together to ensure that the total level of public funding is guaranteed for all systems and schools over a 12-year cycle.

Recommendation 40

The National Schools Resourcing Body should work with the states and territories, the non-government school authorities and the Australian Curriculum Assessment and Reporting Authority (ACARA) to develop a more robust national data collection, consistent with the proposed funding framework, that allows for a deeper national understanding of schooling outcomes. The appropriateness of what data should be used should be jointly worked through by the Ministerial Council for Education, Early Childhood Development and Youth Affairs, ACARA and the National Schools Resourcing Body.

Recommendation 41

The Australian Government should create a fund to provide national leadership in philanthropy in schooling, and to support schools in need of assistance to develop philanthropic partnerships.

Findings

Finding 1

Australian schooling needs to lift the performance of students at all levels of achievement, particularly the lowest performers. Australia must also improve its international standing by arresting the decline that has been witnessed over the past decade. For Australian students to take their rightful place in a globalised world, socially, culturally and economically, they will need to have levels of education that equip them for this opportunity and challenge.

Finding 2

The challenge for the review is to design a funding model that adequately reflects the different needs of students to enable resources to be directed to where they are needed most. All Australian students should be allowed to achieve their very best regardless of their background or circumstances.

Finding 3

Australia's schooling system needs to help ensure that the targets for students attaining Year 12 or equivalent qualifications are met and that students leave school with the skills and capacities required to actively participate in society, and contribute to Australia's prosperity.

Finding 4

Data indicate that Australia is on track to achieve the broader Year 12 or equivalent attainment target for 2015. However, the lack of data to measure progress against the target to halve the gap for Indigenous students in Year 12 or equivalent attainment is of serious concern.

Finding 5

The performance of Australia's schooling system is about more than just literacy and numeracy results in national and international assessments and Year 12 or equivalent attainment rates. Defining and measuring the broader schooling outcomes is difficult and requires further development and information gathering if Australia wants to be able to gauge the effectiveness of its schooling system as a whole.

Finding 6

Australia lacks a logical, consistent and publicly transparent approach to funding schooling.

Finding 7

There is an imbalance in the provision of funding to government and non-government schools by the Australian and state and territory governments. In particular, the Australian Government could play a greater role in supporting state and territory governments to meet the needs of disadvantaged students in both government and non-government schools.

Finding 8

In recognising the many benefits of government and non-government school systems, future funding arrangements for schooling should continue to enable systems to make decisions around the redistribution and allocation of resources at the local level, with enhanced accountability.

Finding 9

The Average Government School Recurrent Costs measure lacks a convincing educational rationale. Meeting Australia's educational challenges requires a funding benchmark that is linked to educational outcomes and is able to respond to changes over time in performance and the delivery of schooling.

Finding 10

Public funding arrangements need to reflect the nature of the educational challenges faced by a system or school given its characteristics and student population, regardless of whether it is in the government or non-government sector.

Finding 11

Within the new funding framework there needs to be an explicit difference between setting a standard for the resourcing of schooling and indexation for changes in the costs related to the delivery of that standard.

Finding 12

For the purposes of developing future recurrent funding arrangements, it would be appropriate to continue to exclude the user cost of capital, depreciation, capital expenditure and payroll tax. Superannuation and long service leave expenses should be included.

Finding 13

The most efficient way to meet the Australian Government's announcement that no school would lose a dollar per student as a result of this review is through a minimum public contribution towards the cost of schooling in non-government schools.

Finding 14

Poor-quality school infrastructure and facilities can contribute to a decline in enrolments in some schools.

There is no national standard against which the adequacy of school facilities can be assessed. Therefore, it is not clear whether all school facilities are appropriate to provide a high-quality 21st century education.

The adequacy of school facilities should be defined in terms of their educational value, and the definition should be flexible to take into account differences in educational needs between schools and changes over time.

Finding 15

In order to address deficiencies in school and regional level planning, government and non-government school systems need to ensure that schools and their communities are more involved in the development and planning of school facilities to ensure that the best design outcomes are achieved.

The enforcement and public reporting against equity and educational objectives should ensure that the public investment into infrastructure and capital projects is being directed towards those schools that require the most assistance.

Finding 16

Current planning processes are not sufficient in responding effectively to changing educational needs based on demographic and social change. There should be effective coordinated planning between schooling sectors and at the local area level.

There needs to be an improvement in the accountability and coordinated planning by all schooling sectors around the use of public funding in the establishment of new schools. Public investment in new schools should take into account the needs of the community and the facilities currently available for students.

Finding 17

New funding arrangements for schooling should aim to ensure that:

- differences in educational outcomes are not the result of differences in wealth, income, power or possessions
- all students have access to a high standard of education regardless of their background or circumstances.

Finding 18

Strategies to address educational disadvantage in school are most effective when integrated with, and complementary to, approaches to support early childhood development.

Finding 19

The key dimensions of disadvantage that are having a significant impact on educational performance in Australia are socioeconomic status, Indigeneity, English language proficiency, disability and school remoteness.

Finding 20

There are complex interactions between factors of disadvantage, and students who experience multiple factors are at a higher risk of poor performance.

Finding 21

Increased concentration of disadvantaged students in certain schools is having a significant impact on educational outcomes, particularly, but not only, in the government sector.

Concentrations of students from low socioeconomic backgrounds and Indigenous students have the most significant impact on educational outcomes.

Finding 22

The existing resourcing provided to the government and non-government school sectors for students with disability remains an issue. Students with disability in non-government schools receive substantially less public funding than their counterparts in government schools.

Finding 23

The lack of robust, nationally comparable data on funding for disadvantaged students and its impact on improving educational outcomes is a significant concern. If Australia is to achieve greater equity in educational outcomes across its schooling system, these data will be paramount in ensuring funding is directed to where it is needed most, and improvements can be measured and strengthened over time.

Finding 24

An evidence base is emerging from National Partnership arrangements demonstrating that investment in integrated strategies that are responsive to local circumstances and need can be effective in improving outcomes for disadvantaged students. Critical elements in these strategies include building teacher capacity, strengthening instructional leadership and engaging parents and the broader community.

Finding 25

All schools are responsible for supporting students who are unable to remain within a school, and should have welfare policies that seek to find the most appropriate learning environment for their needs.

Finding 26

The panel notes the Australian Government's response to the recommendations in the *Realising potential: Businesses helping schools to develop Australia's future* report, particularly those aimed at building capacity in schools to develop partnerships with community and business.

1 Schooling in Australia

1.1 Australia's schooling system

Australia's schooling system is divided into three sectors, each of which has a significant enrolment share. In 2010, 66 per cent of students attended government (public) schools, with the remaining 34 per cent of students attending non-government (private) schools. Non-government schools include Catholic schools, educating 20 per cent of all students, and independent schools, educating 14 per cent of all students.

This chapter highlights the different characteristics within and across the three schooling sectors, including differences in the student populations they serve. The high degree of choice within Australia's schooling system and the consequences of this choice are also discussed.

The final part of the chapter discusses the total expenditure on Australian schooling by governments, and provides a breakdown of the resources each funding partner provides to each sector, including income from private sources. The role of each funding partner is discussed further in Chapter 2.1.

1.1.1 Schools and student enrolments

In 2010, there were 9468 schools in Australia, educating some 3.5 million full-time equivalent student enrolments. Of these schools, 6357 were primary schools, 1409 were secondary schools, 1286 were combined primary and secondary schools, and 416 were special schools catering for students with disability or learning difficulties. The large number of primary schools reflects the provision of primary schools, particularly government and Catholic schools, in most localities across Australia, as well as the comparatively smaller student populations in these schools (see Table 1).

In contrast to government and Catholic schools, most independent schools are combined primary and secondary schools (63 per cent), and a smaller number are primary schools.

There is also a distinction between schools and school campuses. Schools in all three schooling sectors can have one or more campuses attached to a 'head campus'. These schools are counted as one school by the Australian Bureau of Statistics (ABS). In 2010, there were some 161 government subsidiary campuses, 79 Catholic subsidiary campuses, and 226 independent subsidiary campuses (DEEWR administrative data 2010). Schools with multiple campuses may have a head campus located in a metropolitan area, with subsidiary campuses in provincial and remote areas.

Over the past decade, the number of schools across Australia has decreased by just over 130 schools. During this time the number of government schools fell by 223, and the number of Catholic and independent schools increased by 12 and 79 schools respectively. By 2010, there were 6743 government schools, 1708 Catholic schools, and 1017 independent schools.

Table 1: Fast facts and figures – schooling in Australia, 2010

Schools						
Total number of schools	9,468					
Primary schools	6,357					
Secondary schools	1,409					
Combined schools	1,286					
Special schools (for students with disability)	416					
Schools by sector						
	Government		Catholic ^(a)		Independent	
Total number of schools	6,743		1,708		1,017	
Primary schools	4,879	72%	1,230	72%	248	24%
Secondary schools	1,034	15%	303	18%	72	7%
Combined schools	498	7%	148	9%	640	63%
Special schools	332	5%	27	2%	57	6%
Students						
Total number of full-time equivalent students	3.5 million					
Number and percentage attending government schools			2.3 million		66%	
Number and percentage attending Catholic schools ^(a)			713,289		20%	
Number and percentage attending independent schools			491,233		14%	

(a) Includes Catholic systemic and non-systemic schools.

Source: ABS 2011c, *Schools, Australia 2010*, cat. no. 4221.0.

While the total number of schools has decreased over the past decade, the total number of students in schools has increased. In all states and territories across Australia, the number of students attending non-government schools has consistently increased at a greater rate than for students attending government schools. Catholic and independent schools had the largest overall proportional increase in students over the last five years with 6 per cent and 14 per cent increases respectively. Students attending government schools increased over the same time by less than 2 per cent (ABS 2011c).

There have also been notable trends in the growth of certain student cohorts across the schooling sectors. There has been strong growth in the number of funded students with disability in schools, with numbers having risen from 109 719 full-time equivalent students in 2000 to 172 311 full-time equivalent students in 2010, an increase of 64 per cent. Similarly, the number of full-time equivalent Indigenous students in schools has steadily increased over the past decade from 111 989 students in 2000 to 162 293 students in 2010, an increase of almost 70 per cent (ABS 2011c).

Approximately 2.3 million full-time equivalent students currently attend government schools, 713 289 attend Catholic schools, and 491 233 attend independent schools.

1.1.2 Schooling sectors

All government schools and most non-government schools are part of a school system, with each school system having its own common ownership or ethos. These systems play an important role in the delivery of schooling across Australia. Funding policies over many years have supported these systemic traditions and administrative arrangements.

However, systems are not a prominent feature of the independent sector. Over 80 per cent of independent schools are stand-alone entities that are managed by a principal and overseen by a governing body.

Government school sector

Government or state-run schools have origins which date back to before federation. With the idea of equal rights for all citizens, landmark legislation was passed in each of the colonies of Australia by the 1880s that created free, compulsory and secular education for all students (Wilkinson et al. 2006). It was also around this time that education became compulsory for the primary years of schooling. While some Indigenous Australians were enrolled in schools in these early years, practices of segregation and exclusion existed (Cadzow 2007).

Following federation in 1901, state and territory governments remained constitutionally responsible for providing secular schooling that was free and open to any child who was eligible to attend. This responsibility continues today with education departments in each state and territory managing the policy and overall administration of government schools. State and territory governments are also responsible for registering and regulating all schools in their state or territory. The criteria for registration vary across the states and territories. Generally speaking, schools must satisfy a number of requirements under the broad categories of staff, curriculum, health and safety, governance and financial viability (see Chapter 2.4).

The responsibility of state and territory governments to ensure universal access to education for all Australian students extends to providing government schools or support (through distance schooling options) in all populated areas, including very remote areas. It also means catering for students with significant disabilities and behavioural management needs. However, non-government schools also play a role in the universal provision of schooling, particularly in some remote and very remote locations where a non-government school may be the only school servicing a community.

While government schools guarantee students access to a primary or secondary school within a designated zone, a number of states and territories have lifted requirements that restrict enrolments to within zones, allowing parents to enrol their children in non-zoned government schools if there are sufficient places. Government school systems have also developed policies that provide for modest fees to be charged for additional materials and excursions. However, all state and territory education Acts specify that government schooling is either free or that a student should not be denied an education program because a payment has not been met (Keating et al. 2011). In addition to these fees, schools and their associated parents and citizens' (P&C) associations can raise funds through other activities. However, fees and other private contributions make up a small proportion (5 per cent) of the overall funding of government schools in Australia.

Government school systems differ markedly in size. A number of states and territories cluster government schools into regions, districts or networks to facilitate the administration of schooling. There are also a number of structures at the local school level, such as P&C associations, school boards and school councils in some jurisdictions, which can assist in setting key directions for the school, although the extent that these are used and the power enacted to such bodies varies considerably from state to state.

Government school systems also differ in the way they operate and allocate resources to schools. While the sector has traditionally been centralised in the allocation of resources to schools, processes have changed over recent decades. The 1973 *Report of the Interim Committee for the Australian Schools Commission* (Karmel Report) expressed the view that 'responsibility should be devolved as far as possible upon the people involved in the actual task of schooling'. Starting in Victoria in the 1990s,

and since then in other states to varying degrees, there has been a growing push to devolve decision making closer to the point of educational delivery, including greater control over the management and administration of funds. Issues remain about how this operates in practice (Caldwell and Spinks 2008) and whether it is appropriate for all schools.

Government schools have also become diverse in a number of ways. There has been an increase in specialist schools with an emphasis on particular subject areas, selective schools that recruit students based on academic performance regardless of the area in which they live, and single-sex schools.

Catholic school sector

Catholic schools have operated in Australia since the first half of the 19th century (Wilkinson et al. 2006). In 1879, the Catholic Bishops of Australia released a *Joint Pastoral Letter* stating that Catholic families must send their children to a Catholic school to ensure these children receive religious education (Catholic Archdiocese of Sydney 2011). Most of the schools were staffed by religious orders, which was important as the legislation passed throughout the colonies abolished state aid for non-government schools. In order to be accessible to all Catholic families, the fees charged by Catholic schools were low.

The purpose of Catholic schooling today is still to provide holistic education that includes religious instruction. Most Catholic schools have also continued to charge modest fees to enable Catholic schooling to be accessible to students from all backgrounds, including those who may not be Catholic.

Some 96 per cent of all Catholic schools are members of Catholic school systems operating in each state and territory. Seventy-two Catholic schools are not members of a system, but have been included with systemic Catholic schools in the aggregate data presented in this report. Within this group are schools that have been recognised by the responsible Catholic bishop, as well as around six self-identified Catholic schools that have not been recognised.

Non-systemic Catholic schools are mostly owned by religious congregations or orders rather than the dioceses' Catholic Education Offices, and receive funding directly from the Australian Government and state and territory governments, like other independent schools.

The eight state and territory Catholic systems operate under Catholic Education Commissions and work in partnership with Catholic Education Offices within each diocese to provide advocacy and representation, and oversee the distribution of government funding to diocesan education offices and/or schools. However, the roles and responsibilities of the Catholic Education Commissions and Catholic Education Offices across Australia vary considerably, reflecting local histories and influences. Some Catholic systems also redistribute private income between schools on a co-responsibility basis.

Generally speaking, the various roles and functions of the Catholic Education Commissions and Catholic Education Offices allow them to assume overall responsibility for Catholic school governance, viability, accountability and compliance within a highly devolved framework for school management. This framework is based on the principle of 'subsidiarity', where decisions are made as close to the local level as appropriate and feasible. While these school systems are required to ensure that their schools achieve appropriate education standards, this framework provides schools with a high level of autonomy over pedagogy, curriculum, staffing, facilities and finances.

Catholic Block Grant Authorities are linked but are separate from the Catholic Education Commissions in each state, and assess applications from Catholic schools for funding under the Australian Government's Capital Grants Program. They also play a similar administrative role in other

application-based capital funding programs, such as the Trade Training Centres and Building the Education Revolution National Partnerships.

Some Catholic schools provide boarding facilities to students. Around 6560 students board at 47 Catholic schools across Australia (DEEWR administrative data 2010).

Independent school sector

Independent schools are usually established and developed by community groups, commonly, but not always with religious affiliations, to meet particular schooling needs. In 1970, independent schools enrolled 4 per cent of all students in Australia. Most of these students attended denominational Christian schools, comprising Baptist, Anglican, Lutheran, Methodist, Presbyterian and Seventh-day Adventist schools. Other independent schools were Jewish and non-denominational schools, as well as a small number of other schools (ABS 1971). By 2010, the enrolment share of the independent sector had increased to 14 per cent.

Today, there is a high degree of diversity among schools in the independent school sector. Some 85 per cent of students in the independent sector attend schools that provide religious education, or promote a particular educational philosophy or philosophical affiliation (see Table 2). These schools also serve a broad range of students, from low socioeconomic status communities to those from higher socioeconomic backgrounds, with fee structures adjusted accordingly. Independent schools are the major providers of boarding schools in Australia, with 15 683 students boarding at 125 independent schools across Australia (DEEWR administrative data 2010).

Students' access to independent schools is generally at the discretion of the school and dependent on the extent to which prospective students meet the values and aspirations of the school, and parents that are willing and able to meet the fees charged by these schools. Some schools offer bursaries and scholarships to high-achieving children from disadvantaged backgrounds.

Over 80 per cent of independent schools are non-systemic. These schools are not-for-profit institutions that are set up and governed independently. They are managed by their own board of governors or by a management committee which is the key decision-making body responsible for the provision of education in the school, planning for current and future developments and staffing, and school resourcing. However, there is considerable variation in the legal structures among schools and further variation in the decisions that are made at the school board level and those made by the principal.

Around 180 independent schools are members of 18 school systems that include Lutheran, Seventh-day Adventist and Anglican systems organised on a geographical basis. Compared to the Catholic sector these systems are considerably smaller and the system authorities play a smaller role in the distribution of government funding, with funds generally distributed to individual schools on the same basis as they are received from governments (see Chapter 2.1).

Associations of Independent Schools are not-for-profit peak bodies in each state and territory that represent the interests of most independent schools to governments and in the industrial sphere. They also support member schools in a range of areas including governance and professional development, and play a key role in administering and distributing certain funding programs to member schools, such as the Australian Government's targeted programs under the *Schools Assistance Act 2008*.

As in the Catholic sector, Block Grant Authorities work in partnership with Associations of Independent Schools and have an administrative role in relation to capital funding.

Table 2: Affiliations of independent schools, 2010

	Schools	Student enrolments	Percentage of enrolments
Ananda Marga	2	226	0.05
Anglican	156	137,840	27.98
Assemblies of God	10	5,597	1.14
Baptist	42	17,840	3.62
Brethren	8	4,039	0.82
Christian Schools	136	53,840	10.93
Churches of Christ	2	1,012	0.21
Hare Krishna	1	40	0.01
Interdenominational	29	20,458	4.12
Islamic	32	20,210	4.10
Jewish	20	9,005	1.83
Lutheran	85	36,578	7.42
Montessori School	39	3,965	0.80
Non-denominational	188	72,434	14.70
Orthodox, Greek	8	3,894	0.79
Orthodox, other	6	2,130	0.43
Other ^(a)	85	15,212	3.09
Other religious affiliation	5	2,489	0.51
Pentecostal	16	6,841	1.39
Presbyterian	14	9,847	2.00
Seventh-day Adventist	47	11,047	2.24
Society of Friends	1	1,271	0.26
Steiner School	42	7,586	1.54
Uniting Church of Australia	43	49,303	10.01
Total	1017	492,704	100
Non-systemic Roman Catholic	64	50,721	
Non-systemic other Catholic	8	3,469	

(a) 'Other' includes special schools, international schools, Indigenous schools, and community schools.

Source: DEEWR administrative data 2010.

1.1.3 Student profile within the schooling sectors

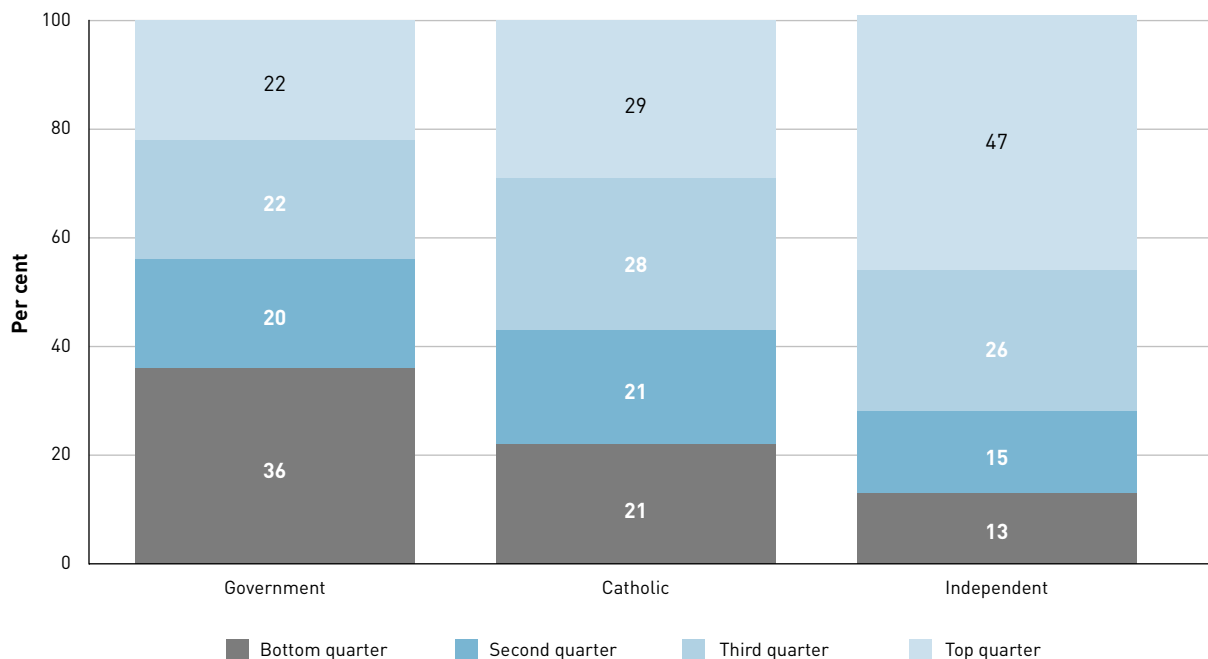
Each schooling sector caters for a broad range of students, including students from a variety of regions, and social and cultural backgrounds. There is also variation in the extent that educational disadvantage is present across the schooling sectors. While the government school sector caters for the largest proportion of educationally disadvantaged students, the number of disadvantaged students enrolled in Catholic and independent schools has risen significantly over recent years. In 2010, 26 636 full-time equivalent students with disability were enrolled in Catholic schools, and 10 556 in independent schools, an increase of 90 and 88 per cent respectively since 2000 (DEEWR administrative data 2010). Similarly, in 2010 15 193 full-time equivalent Indigenous students were enrolled in Catholic schools, and 8646 in independent schools, an increase of 63 and 91 per cent respectively since 2000 (ABS 2011c).

Government school sector

There is a disproportional number of students from the most disadvantaged backgrounds attending government schools, as indicated by data collected by the Australian Curriculum, Assessment and Reporting Authority (ACARA) on the occupation and education level of students' parents (the socio-educational advantage measure).

In 2010, 36 per cent of all government school students were from the lowest quarter of socio-educational advantage compared to 21 per cent of Catholic school students and 13 per cent of independent school students. The remaining government school students were almost equally distributed across the remaining quarters of socio-educational advantage, as shown in Figure 1. Across all sectors, there are some schools with far greater concentrations of students in the lowest quarter, as well as other schools that cater for more students from the higher quarters of socio-educational advantage.

Figure 1: Distribution of students by socio-educational advantage quarter, by sector, 2010



Note: Percentages do not total 100 due to rounding.

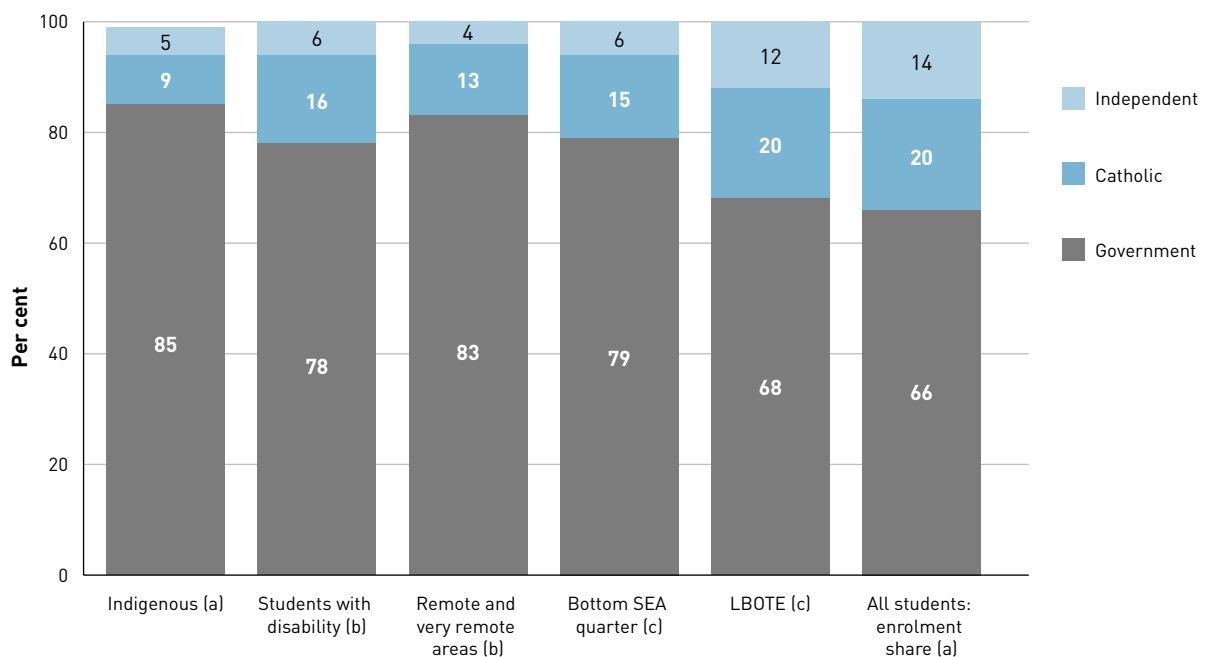
Source: ACARA dataset 2011.

Figure 2 shows that of all students in the lowest quarter of socio-educational advantage, almost 80 per cent attended government schools. Figure 2 also shows that government schools provide for a high proportion of Indigenous students and students with disability. In 2010, 85 per cent of all Indigenous students attended government schools, comprising 6 per cent of the government school population. Seventy-eight per cent of students with a funded disability attended government schools, some 5.9 per cent of all students in the sector.

In 2010, 2.3 per cent of the total student population was enrolled in schools in remote and very remote areas. Of these students, 83 per cent attended government schools (see Figure 2).

While the national aggregate of students in remote and very remote areas is quite small, students in these areas are concentrated in the Northern Territory, Western Australia, Queensland and South Australia. New South Wales also has more than 5500 students attending schools in remote or very remote areas (Rorris et al. 2011). The Northern Territory, in particular, has a significant number of students attending schools in remote and very remote areas, with 45 per cent of all students attending schools in these areas. Unlike other states and territories, only a slightly higher percentage of students attend government schools in remote and very remote locations in the Northern Territory, compared with students attending non-government schools.

Figure 2: Proportion of students by disadvantage group, by sector, 2010



Note: Percentages do not total 100 due to rounding. LBOTE proportions are based on the proportion of students identifying as LBOTE at time of NAPLAN testing.

Sources: (a) ABS 2011c, *Schools, Australia, 2010*, cat. no. 4221.0; (b) DEEWR administrative data 2010; (c) ACARA dataset 2011.

The proportion of students from a language background other than English (LBOTE) across the three schooling sectors broadly reflects the enrolment share for each sector (see Figure 2).

Catholic school sector

Data indicate that there is a more even spread of socioeconomic backgrounds among students attending Catholic schools, than government and independent schools. In 2010, 21 per cent of students attending Catholic schools were from the bottom quarters of socio-educational advantage. Figure 1 shows that slightly greater proportions of Catholic school students fall into the top two quarters of socio-educational advantage, with 28 per cent of students in the third quarter and 29 per cent of students in the highest quarter.

In 2010, 9 per cent of all Indigenous students attended Catholic schools. This amounted to around 2 per cent of the student population in Catholic schools (see Figure 2). In 2010, 16 per cent of all funded students with disability attended Catholic schools, around 3.7 per cent of all students in Catholic schools.

In 2010, 13 per cent of all students who attended schools in remote and very remote areas attended Catholic schools (see Figure 2), a smaller enrolment share than the overall Catholic sector enrolment share of 20 per cent. However, there are a sizeable number of Catholic schools in remote and very remote areas, with around 65 schools (3.7 per cent of all Catholic schools) located in these areas.

Independent school sector

Figure 1 shows that almost half of all independent school students (47 per cent) fall into the top quarter of socio-educational advantage. Some 13 per cent of students in the independent sector are in the bottom quarter of socio-educational advantage, followed by 15 per cent and 26 per cent in the second and third quarters respectively. However, there are variations in the socioeconomic backgrounds of students attending certain independent schools that are not reflected in these average distributions. Some independent schools draw their total enrolments from low socioeconomic status communities, including communities with high numbers of parents who do not speak English, and Indigenous communities.

In 2010, 5 per cent of all Indigenous students attended independent schools, which was around 1.8 per cent of all enrolments in the independent sector (ABS 2011c). Around 6 per cent of all funded students with disability attended independent schools, equating to 2.1 per cent of all enrolments in the sector.

In 2010, 4 per cent of all students attending schools in remote or very remote areas attended independent schools (Figure 2), representing 0.7 per cent of all students in the independent sector. Like the Catholic sector, around 3 per cent of all independent schools are located in remote and very remote areas, including some schools that service high numbers of Indigenous students.

1.1.4 Choice within the schooling system

The prominence of non-government schools in Australia, all of which receive some level of government funding, sets it apart from many Organisation for Economic Co-operation Development (OECD) countries. As shown in Figure 3, government schooling is the dominant model for most OECD countries. There tends to be more variation in the senior years of schooling, with more schooling systems having larger numbers of government-supported and non-funded non-government schools in upper secondary education.

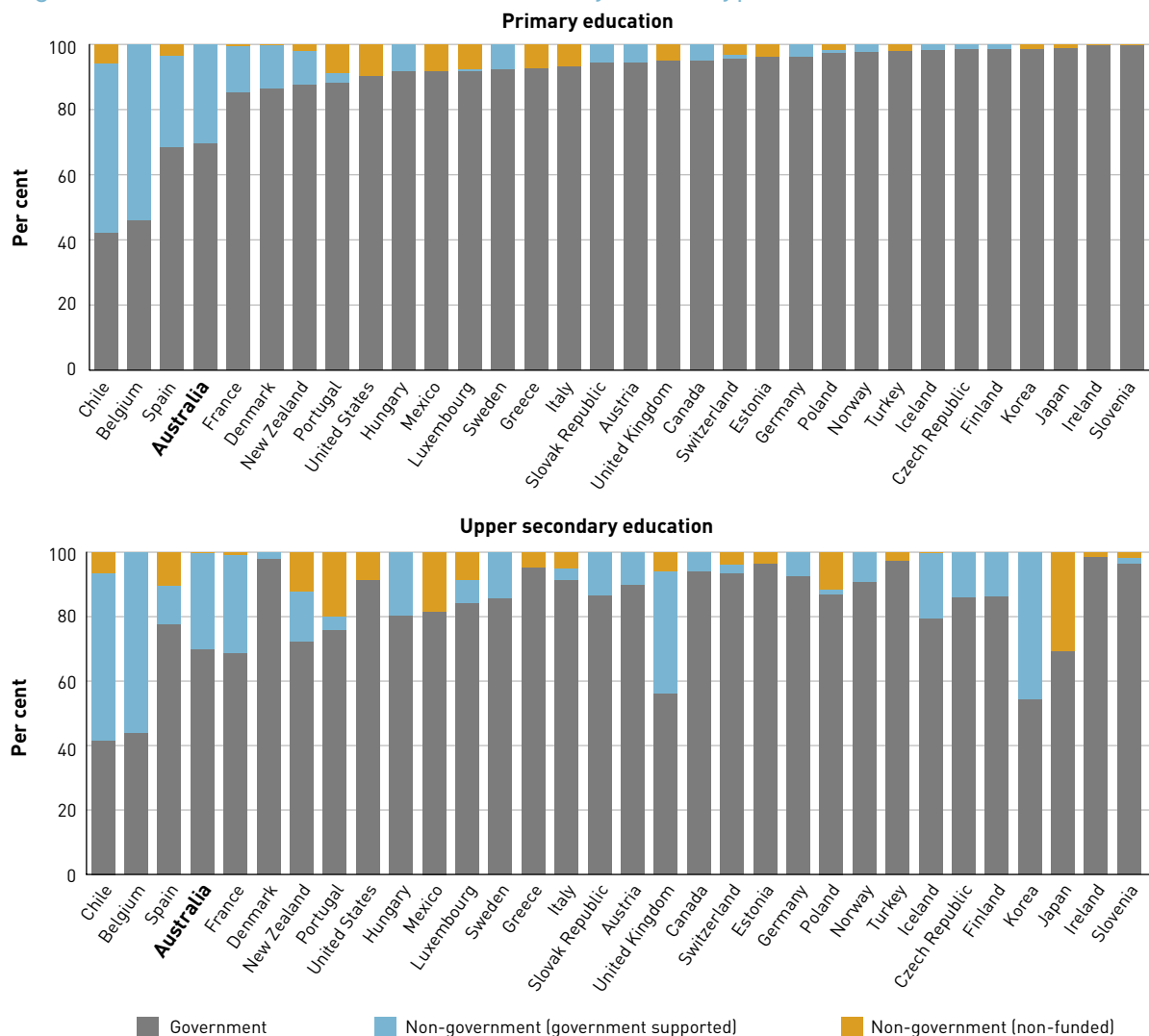
The large number and types of non-government schools in Australia provides parents with a high degree of choice in schooling options for their children. This choice is a value supported by many—non-government schools may provide an education that is consistent with a family's values, or may be regarded as providing a quality education, fostering strong academic and non-academic outcomes. Choice in schooling has also been linked to a number of benefits to the schooling system as a whole.

A study commissioned by the OECD found that schooling systems that provided choice between government and non-government schools resulted in notably improved academic outcomes across the system (Woessmann et al. 2007).

However, not all Australian parents are able to access or afford such choice in schooling, particularly those from low socioeconomic backgrounds. While some non-government schools may offer parents scholarships covering all or part of a student's fees, or may discount or waive fees due to financial hardship, these benefits are not available to all.

Some parts of the community have voiced concern about the consequence of Australia's competitive market for school education. These concerns centre on the alleged segregation of students into schools with markedly differing socioeconomic compositions, largely based on the ability and willingness of parents to pay fees. This segregation is considered to have been exacerbated by the government sector's gradual loss in market share to the non-government sector, resulting in the government sector educating an increasing proportion of educationally disadvantaged students. It is suggested that this has impacted on the capacity of some government schools to provide a quality education for all students.

Figure 3: Distribution of enrolled students by school type, 2009



Note: Countries are ranked in descending order of the percentage of students enrolled in non-government institutions in primary education.

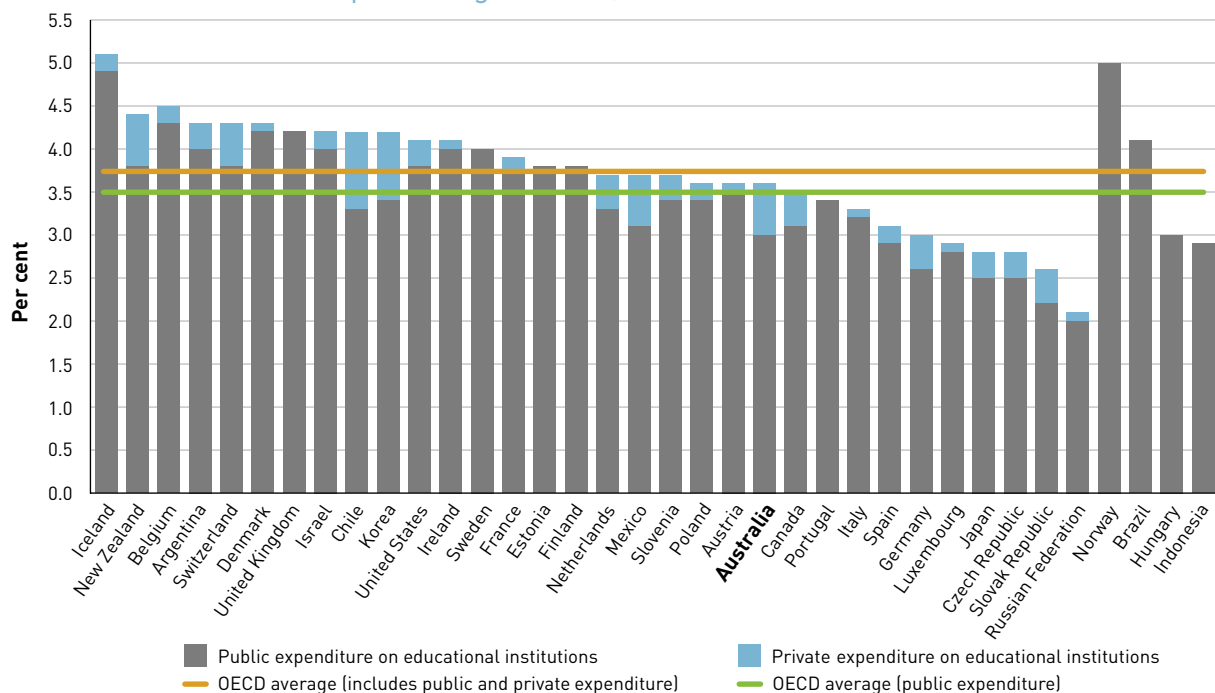
Source: Reproduced from *Education at a glance 2011: OECD indicators 2011a*, Table C1.4.

Government schools currently enrol the majority of educationally disadvantaged students. Enrolment data also confirms a steady drift of students from the government sector to the non-government sector that has been evident since the late 1970s, as well as a tendency for parents from higher socioeconomic backgrounds to move their children from government schools to non-government schools or select-entry government schools. This is thought to commonly occur in the transition from primary to secondary school. Watson and Ryan (2010) found that almost 60 per cent of the decline in government school enrolments between 1975 and 2006 occurred in the top half of the socioeconomic status distribution.

1.1.5 School resourcing

A country's expenditure on schooling can indicate the priority it gives to education (OECD 2011b). Government expenditure on schooling in Australia is relatively low in comparison to other OECD countries. The OECD estimates that public expenditure on primary, secondary and post-secondary non-tertiary education in Australia was 3 per cent of gross domestic product (GDP) in 2008, compared to an OECD average of 3.5 per cent of GDP (Figure 4).

Figure 4: Expenditure on primary, secondary and post-secondary non-tertiary education as a percentage of GDP, 2008



Source: Reproduced from *Education at a glance 2011: OECD indicators 2011b*, Table B2.2.

In terms of private expenditure on primary, secondary and post-secondary non-tertiary education, Australia is above the OECD average, with private expenditure equating to 0.6 per cent of GDP in 2008, compared with the OECD average of 0.3 per cent of GDP. These data can be explained in part by Australia's large non-government school sector.

Public expenditure or funding for schooling is provided by the Australian Government and state and territory governments, with all schools receiving some level of funding from both levels of government. Private expenditure is mostly provided through parental fees, but also from activities such as fundraising, donations, and interest and profits. Generally speaking, school expenditure involves

recurrent expenses, including the resources required to support disadvantaged students, and capital or infrastructure expenses.

The balance between the various income sources a school receives varies within and across the schooling sectors. Government schools receive most of their funding from state and territory governments, Catholic schools receive the bulk of their funding from the Australian Government, and independent schools on average have the highest level of private income, although this varies considerably across the sector (Keating et al. 2011). Levels of resourcing in schools have been recently influenced by National Partnerships, including the Building the Education Revolution National Partnership, which have provided additional substantial support to schools in all schooling sectors.

Funding for schooling in aggregate

In 2009, the total net recurrent income of all Australian schools was almost \$39 billion (ACARA dataset 2011). This total included private income and targeted program funding, but did not include recurrent income that had been allocated to capital projects. Some three-quarters of these funds were directed to the employment of 249 200 full-time equivalent teachers and 8700 specialist staff (ABS 2010e).

The net recurrent income reported by ACARA also includes central administrative costs relating to schools that are owned and operated by each respective system. However, it does not include costs for providing policy and regulatory services for all schools in a jurisdiction, like some boards of studies costs.

In 2009, \$6.4 billion was expended on capital projects across all schooling sectors (ACARA dataset 2011). It should be noted that ACARA only reports on monies that were spent on capital projects in a given year, not the total income that may have been received by a system or school for capital purposes.

The capital expenditure from Australian Government capital funding is atypical for all sectors for 2009 due to the Building the Education Revolution National Partnership, and to a lesser extent the Digital Education Revolution and Trade Training Centres National Partnerships (see Chapter 2.4). For example, the Australian Government Capital Grants Program provided some \$135.27 million to non-government schools in 2009; however, a total of \$1.35 billion in Australian Government funding was expended on capital projects in non-government schools in this year.

The level of net recurrent income received by each schooling sector in 2009 was broadly consistent with their respective enrolment share (see Table 3). However, this trend did not hold for capital expenditure, with the Catholic and independent sectors expending more per enrolment share than the government sector.

Table 3: Income and expenditure on schooling, 2009

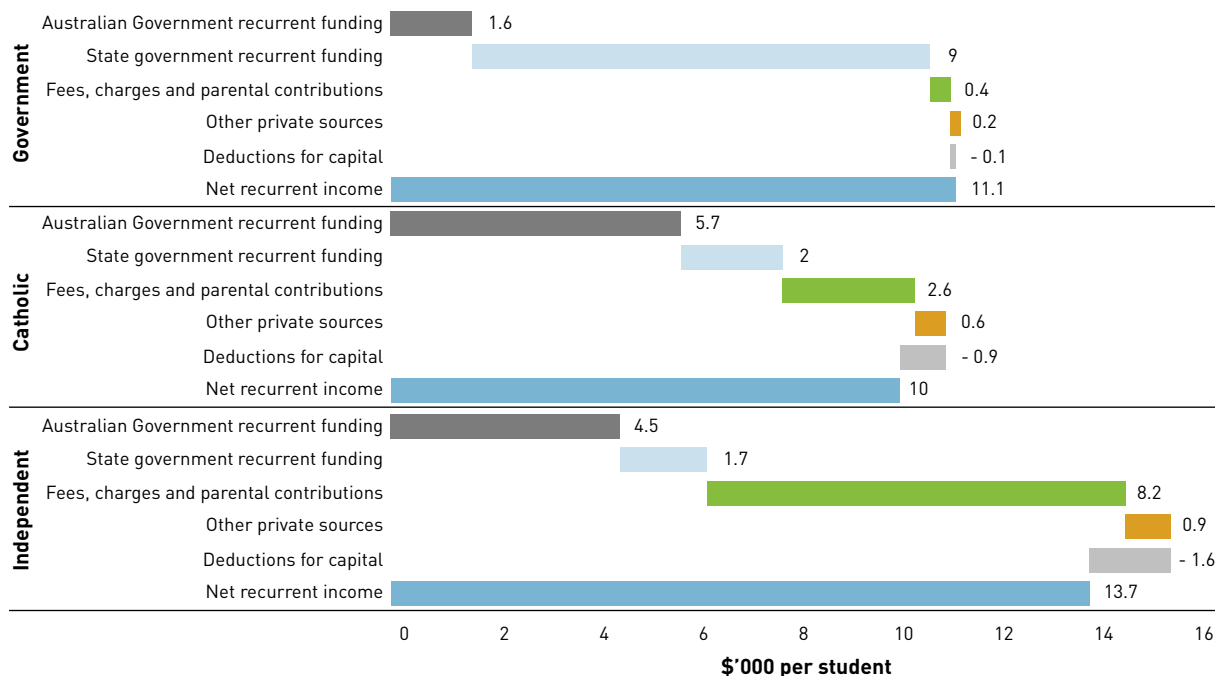
	Net recurrent income		Enrolment share
All schools	\$39.0 billion		
Government schools	\$25.2 billion	65%	66%
Catholic schools	\$7.0 billion	18%	20%
Independent schools	\$6.6 billion	17%	14%
	Capital expenditure		Enrolment share
All schools	\$6.4 billion		
Government schools	\$3.2 billion	49%	66%
Catholic schools	\$1.6 billion	26%	20%
Independent schools	\$1.6 billion	25%	14%

Source: ACARA dataset 2011.

Net recurrent income per student

As illustrated in Figure 5, the average net recurrent income per student in 2009 was \$11 121 for the government sector, \$10 002 for the Catholic sector, and \$13 667 for the independent sector.

Figure 5: Average net recurrent income per student by source of income and sector, 2009



Source: ACARA dataset 2011.

The government sector had the highest average net recurrent income per student in the Northern Territory and Western Australia. The Catholic sector had the lowest net recurrent income per student in every state and territory, with the exception of the Northern Territory. The independent sector had the highest average net recurrent income per student in New South Wales, Queensland, Tasmania, Victoria, South Australia and the Australian Capital Territory (ACARA dataset 2011).

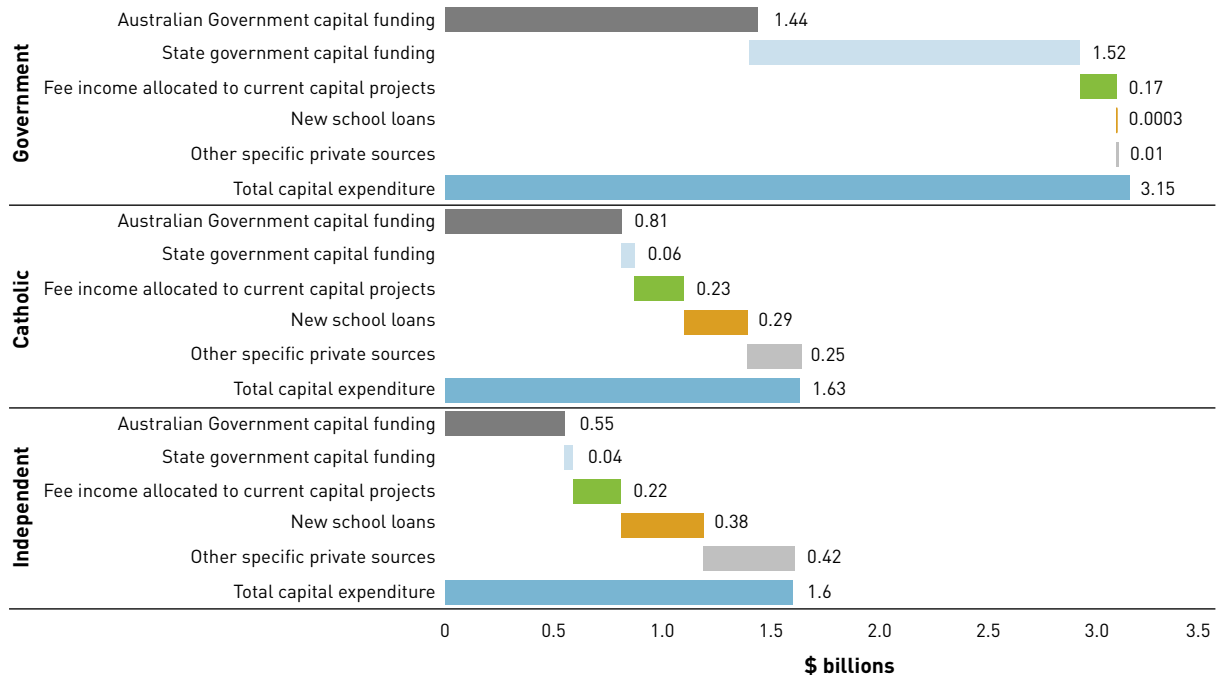
In 2009, an average of 80 per cent of net recurrent income for government schools came from state and territory governments, with around 15 per cent from the Australian Government, and 5 per cent from private sources. In the Catholic sector, an average of 20 per cent of net recurrent income came from state and territory governments, 57 per cent from the Australian Government and 23 per cent from private sources.

An average of 12 per cent of net recurrent income in independent schools came from state and territory governments, 33 per cent from the Australian Government, and 55 per cent from private sources. However, there is a large degree of variation in the ways in which individual schools are resourced across the sector. In 2010, some 72 per cent of all independent schools received more than half their net recurrent income from Australian Government and state and territory government funding (ACARA dataset 2011).

Total capital expenditure

As Figure 6 shows, in 2009 over \$3.1 billion was expended on capital projects in government schools. Approximately 48 per cent of this expenditure came from state and territory governments, 46 per cent from the Australian Government, and the remaining 6 per cent from private sources, including new school loans, fee income allocated to current capital projects and other identified private sources.

Figure 6: Total capital expenditure by source of funding and sector, 2009



Source: ACARA dataset 2011.

In the Catholic sector, \$1.6 billion was expended on capital projects, with 49 per cent of capital funding provided by the Australian Government, 4 per cent from state and territory governments, and the remaining 47 per cent from private sources.

In the independent sector, a total of \$1.6 billion was spent on projects in 2009. The major source of capital funding was from private sources (63 per cent), followed by 34 per cent in Australian Government capital funding, and just over 2 per cent provided by state and territory governments.

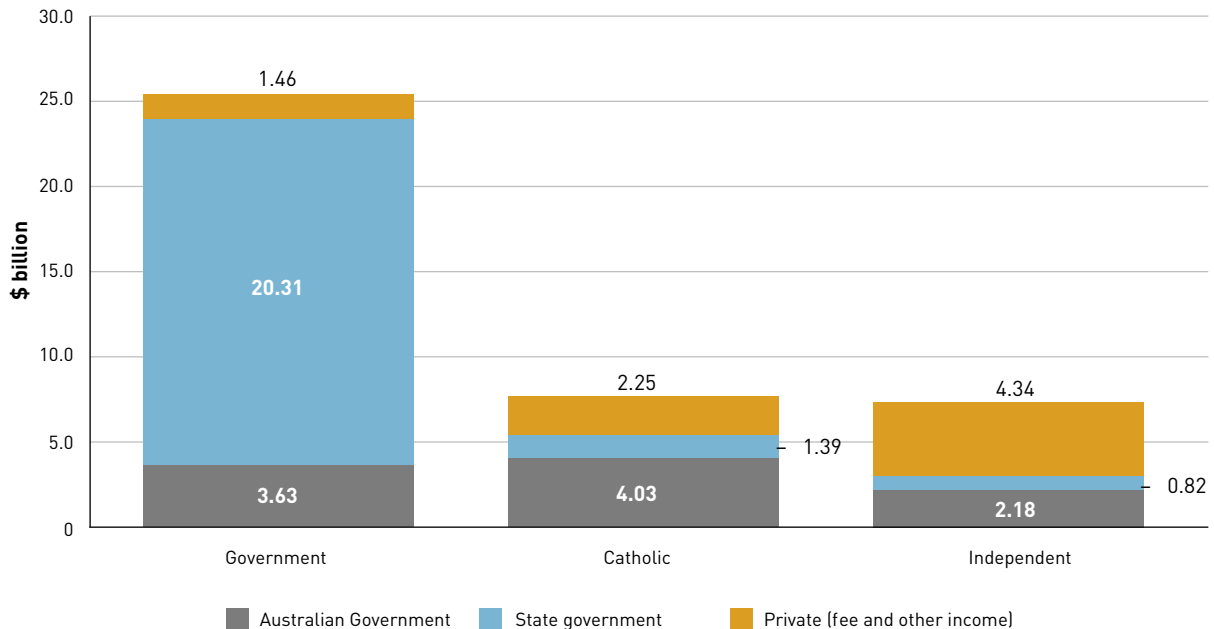
Investment by parents and the community

Parents and members of the community (the latter through philanthropic giving) make a significant contribution towards the total income of schools, predominantly in non-government schools. As such, they are an important funding partner. Chapter 4.5 provides more detail on the role of philanthropy in schooling.

The discussion to date has focused on the net recurrent income schools receive. Net recurrent income includes income from fees, charges, parental contributions and other private sources that is expended on the ongoing operation of schools, such as teaching and non-teaching staff salaries and school operating costs. However, it does not include the proportion of private income that is used to invest in capital infrastructure. This private income is shown in Figure 5 as deductions to the recurrent income for each schooling sector.

Figure 7 shows the private income (fees and other private income) for each schooling sector as a proportion of the total gross recurrent income of schools in the sector.

Figure 7: Private income as a proportion of total gross recurrent income, by sector, 2009



Source: ACARA dataset 2011.

The total private income received by all schools in 2009, including private income that was used for capital purposes, was \$8.1 billion. This represented 19.9 per cent of the total gross recurrent income that was received by all schools (\$40.4 billion). Of the \$8.1 billion, \$6.7 billion was received from parental fees. The remaining \$1.4 billion was provided to schools from other private sources, including donations, interest on bank accounts, profits on trading activities, and profits from the sale of assets. This income includes some private income received for capital purposes, as well as income from school fundraising activities.

1.1.6 Conclusion

The features of Australia's schooling system must be understood before the funding needs of schools can be determined. The demographics of the student population vary within and across the three schooling sectors, as do the resources available to and expended by schools in each sector. Data clearly show that there is variation in student demographics and their related educational needs within each schooling sector, and on average, there are higher numbers of disadvantaged students attending government schools. Data also point to a notable decline in the number of students attending government schools, with an associated increase in students attending non-government schools. These patterns influence the educational outcomes of students, as shown in Chapter 1.2.

1.2 Schooling performance and outcomes

Research is clear about the many economic and social benefits of high-performing schooling systems, which aim to provide all children with the opportunity to reach their full educational potential.

This chapter describes Australia's performance in international and national assessments, as well as rates of Year 12 and equivalent attainment, and concludes that while Australia has a relatively high performing schooling system there are a number of areas of concern. Performance patterns across the three schooling sectors and the states and territories are then discussed, as well as factors that can impact on student outcomes. These factors are discussed further at Chapter 3.2.

While the quality of a schooling system is often measured by outcomes in standardised assessments, such as the Programme for International Student Assessment (PISA), Trends in International Mathematics and Science Study (TIMSS), and Australia's National Assessment Program—Literacy and Numeracy (NAPLAN), or by senior secondary school completion rates, the panel recognises that education is about much more than this. In Australia, schools aim to promote the intellectual, physical, social, emotional, moral, spiritual, aesthetic, and wellbeing of young people, as well as ensure the nation's ongoing economic prosperity and social cohesion (MCEETYA 2008). Many parents consider that while providing outstanding education must be the key focus of schools, the ability of a school to foster these broader outcomes is also important.

The broader outcomes of schooling are discussed in the concluding part of the chapter. While these outcomes are an important part of schooling, little data are available on the development of these skills and attributes among Australian students.

1.2.1 High-performing schooling systems

Individuals who reach their full potential in schooling are usually able to make better career and life choices, leading to successful and productive lives. Success in schooling also helps to provide the skills and capacities needed to keep a society strong into the future. It deepens a country's knowledge base and level of expertise, and increases productivity and competitiveness within the global economy. Hanushek and Woessmann (2010) found that higher educational achievement led to significantly bigger economic returns, when they investigated the relationship between cognitive skills and economic growth in developed countries.

As many researchers have found (Johnston 2004; Levin 2003; Lochner 2011; Wilkinson and Pickett 2009), higher levels of education are associated with almost every positive life outcome—not only improved employment and earnings, but also health, longevity, successful parenting, civic participation and social cohesion. Countries that have significant numbers of people without adequate skills to participate socially and economically in society endure higher social costs for security, health, income support and child welfare.

Studies have shown that it is both the quality of education (measured by student outcomes) and its quantity (years spent in schooling) which contribute to a country's economic growth and the wellbeing of its population.

1.2.2 Outcomes in international and national assessments

Programme for International Student Assessment

Performance in PISA indicates that Australia has an above-average schooling system. In 2009, Australia's mean scores ranked significantly above the OECD average in the three PISA domains of reading, mathematical and scientific literacy. The proportion of students in the bottom and top proficiency levels for reading literacy in Australia (14 per cent and 13 per cent respectively) was also higher than the OECD average of 19 per cent and 8 per cent (Thomson et al. 2011).

However, Australia's average rankings in PISA have declined over the past decade, and mask significant variation within and across the three schooling sectors. In 2000, only one country outperformed Australia in reading literacy and mathematical literacy, and two countries outperformed Australia in scientific literacy. By 2009, Australia was significantly outperformed by six other countries in scientific literacy and reading literacy, and 12 countries in mathematical literacy (see Table 4).

Table 4: Australia's mean scores in reading, mathematical and scientific literacy in PISA, 2000 and 2009

		Australia's mean score	OECD average score	Highest scoring country	Lowest scoring country	Countries that significantly outperformed Australia
Reading	2000	528	500	546	396	Finland
	2009	515	493	556	425	Shanghai-China, Korea, Finland, Hong Kong-China, Singapore and Canada
Mathematics	2000	533	500	557	334	Japan
	2009	514	496	600	419	Shanghai-China, Singapore, Hong Kong-China, Korea, Chinese Taipei, Finland, Liechtenstein, Switzerland, Japan, Canada, Netherlands, and Macao-China
Science	2000	528	500	552	375	Japan, Korea
	2009	527	501	575	416	Shanghai-China, Finland, Hong Kong-China, Singapore, Japan and Korea

Note: Singapore and Chinese provinces (other than Hong Kong) did not participate in PISA 2000.

Sources: Lokan, Greenwood and Cresswell 2001; Thomson et al. 2011.

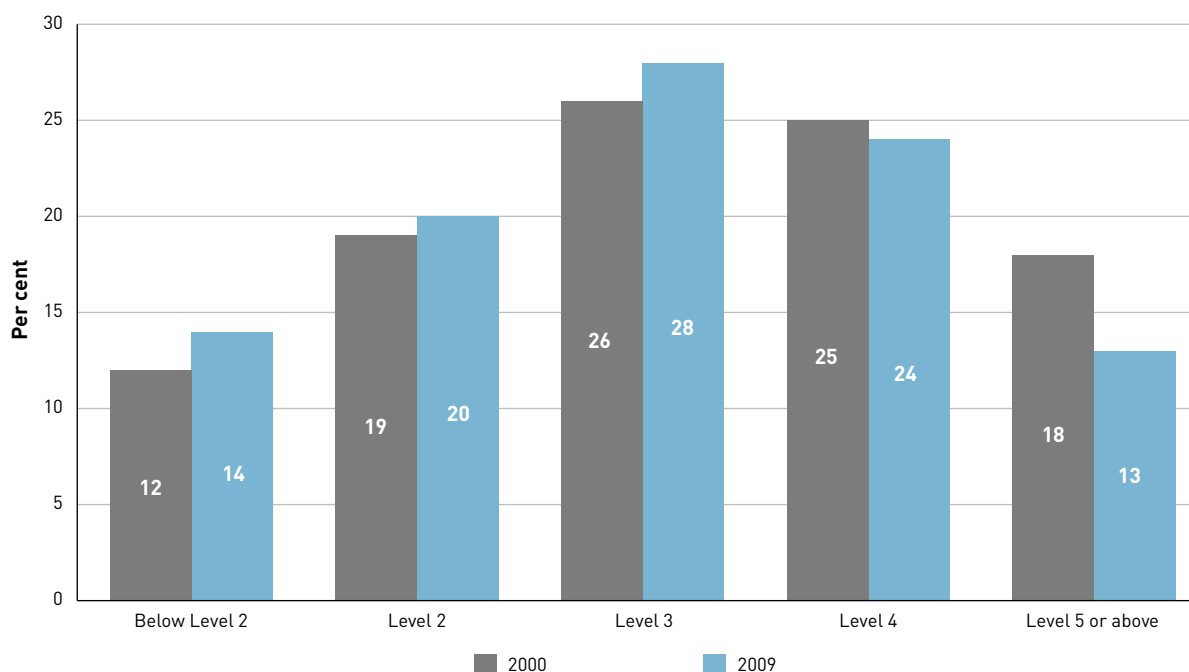
Many of the countries that outperformed Australia are located within the Asia-Pacific region. Based on trends observed in PISA results over the past decade, the OECD warns that advanced economies, like Australia, must not take for granted that they will always have skills and capabilities superior to those in other parts of the world. At a time of intensified global competition, countries will need to work hard to maintain a knowledge and skill base that keeps up with changing demands (OECD 2010).

Box 1: PISA and proficiency scales

PISA is a standardised assessment that is administered across 34 OECD countries and 31 partner countries involving 15 year-old students in schools. In PISA 2009 the domains tested were reading literacy, mathematical literacy and scientific literacy. Student achievement in the PISA domains is reported in terms of levels of proficiency across a scale from 1 to 6. Students achieving Level 1 have difficulty completing basic tasks. Students achieving Level 6 have mastered complex tasks. Level 2 represents the base level of achievement needed for full participation in society.

Figure 8 shows that the distribution of reading scores in Australia across most proficiency levels has regressed between 2000 and 2009, including a notable reduction in the proportion of top performers. Figure 8 also shows an increase in the number of students performing below Level 2 in reading literacy from 12 per cent in 2000 to 14 per cent in 2009. It is concerning that this increase in below Level 2 performance has occurred for all three PISA domains.

Figure 8: Percentage of Australian students by highest level of reading literacy proficiency in PISA, 2000 and 2009



Sources: Lokan, Greenwood and Cresswell 2001; Thomson et al. 2011.

In 2009, an average of one in seven students performed below the proficiency baseline for all PISA domains compared with one in eight students in 2000. If this ratio were to apply to the current total student population, some 500 000 students would leave school without the skills and knowledge needed to participate effectively in a globalised society.

Just as concerning is the fall in the percentage of students who are performing at Level 5 and above. Between 2000 and 2009, the percentage of students performing at Level 5 and above declined from 18 per cent in 2000 to 13 per cent in 2009.

Australia's performance slippage in PISA is more pronounced in mathematical literacy, with a decline from 47 to 38 per cent of students performing at Level 4 and above between 2000 and 2009, and an

increase from 10 to 16 per cent of students performing below Level 2. Comparisons with specific countries make this point more clearly. In 2009 PISA mathematical literacy, 17 per cent of Australian students achieved Level 5 or above compared to 18 per cent in Canada, 22 per cent in Finland and 36 per cent in Singapore. In terms of those achieving below Level 2, 16 per cent of Australian students achieved below this level compared to 8 per cent in Finland, 10 per cent in Singapore, and 11 per cent in Canada.

Performance inequality

Performance in PISA also highlights the significant gap between the highest and lowest performing students in Australia, relative to other OECD countries. The level of performance inequality in a country can be illustrated by the difference in PISA scores of the lowest performing students (those at the fifth percentile) and the highest performing students (those at the 95th percentile), irrespective of student background (Jensen, Reichl and Kemp 2011). A lower score represents a more equal level of performance of students across the schooling system.

As shown in Figure 9, Australia has a high degree of performance inequality, higher than the OECD average. The countries represented in Figure 9 were the top ten ranking countries in 2009 for reading literacy. Countries that have high educational outcomes tend to also have low levels of performance inequality.

The decline in performance at both ends of achievement indicates that Australia must focus on raising performance across the board if it wants to improve its productivity and competitiveness as a nation.

Trends in International Mathematics and Science Study

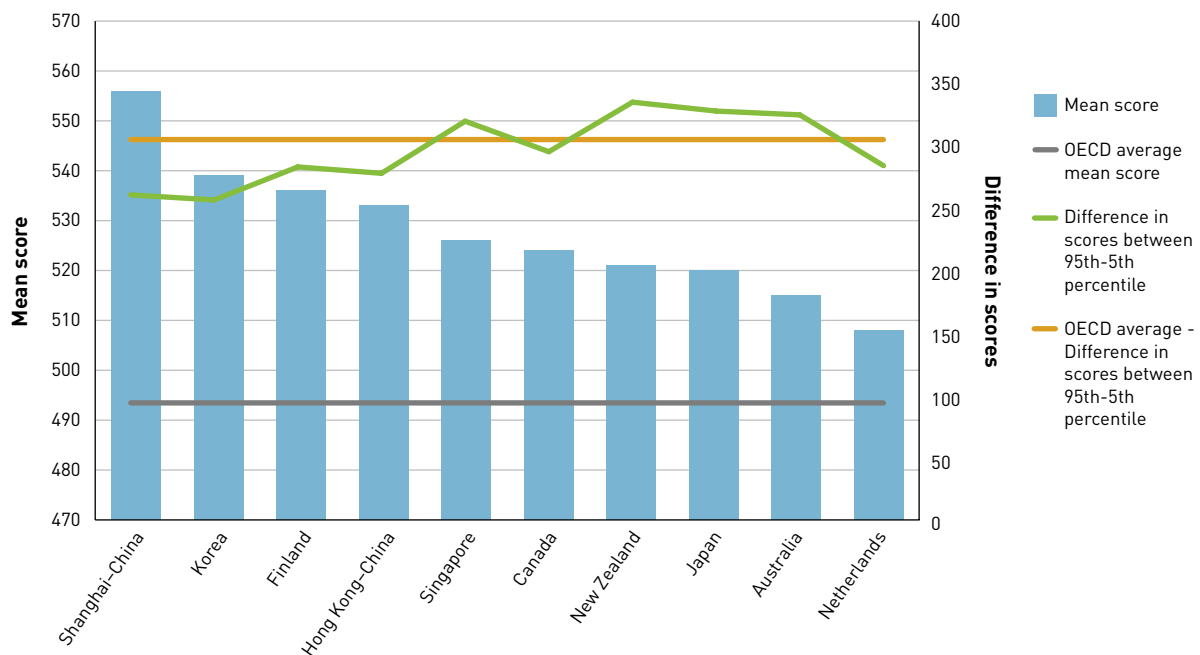
TIMSS measures performance in mathematics and science for Year 4 and Year 8 students, with the assessment conducted across a number of OECD countries every four years. The most recent data from TIMSS 2007 show that less than 10 per cent of Year 4 and Year 8 students in Australia achieved the advanced performance benchmarks in mathematics and science. This percentage was lower than that of many of Australia's Asian neighbours, England and the United States, but higher than the international mean. There was also a higher percentage of Australian students in Years 4 and 8, relative to countries such as the United States, who did not meet the lowest benchmark in both mathematics and science.

Like Australia's performance in PISA in 2009, Australia was significantly outperformed in the TIMSS Year 4 mathematics assessment by 12 OECD countries, and by nine countries for the Year 8 mathematics assessment. Similar rankings applied for the science assessment across both years. The performance of Australian students in TIMSS has remained largely static over the last decade, whereas the achievement of many other comparable countries, such as England, has increased (Thomson et al. 2008).

Finding 1

Australian schooling needs to lift the performance of students at all levels of achievement, particularly the lowest performers. Australia must also improve its international standing by arresting the decline that has been witnessed over the past decade. For Australian students to take their rightful place in a globalised world, socially, culturally and economically, they will need to have levels of education that equip them for this opportunity and challenge.

Figure 9: PISA reading literacy mean scores for the top ten ranking countries and performance inequality, 2009



Source: Reproduced from Jensen, Reichl and Kemp 2011 (Table 1) using data from Thomson et al. 2011.

Much more is known about the relationship between disadvantage and poor educational outcomes (see Chapter 3.2) than about the reasons for the downward trend in overall performance. There is no clear evidence to explain the decline in performance and rankings in PISA, nor Australia's static performance in TIMSS.

However, there is evidence that indicates what makes the highest performing countries successful. This evidence suggests that societal issues, such as the level of inequality within a country, combined with particular characteristics of a country's schooling system, create the conditions for high educational outcomes. Quality teaching is undoubtedly one of the most important in-school factors. McKinsey and Company concluded from their extensive international study of high-performing schooling systems that the quality of an education system cannot exceed the quality of its teachers (Barber and Mourshed 2007).

Important factors that are frequently cited (Caldwell and Harris 2008; Hattie 2008; Levin 2008) as contributing to good student outcomes based on the practice of high-performing schooling systems across the world include:

- attracting and retaining the best teachers
- adopting a national curriculum
- using data to inform continual assessment
- having high expectations for the achievement of all students
- student engagement and motivation
- parent and community engagement
- using funding where it can make the most difference
- increasing school-level autonomy balanced with appropriate accountability.

National Assessment Program—Literacy and Numeracy

Using Australia's own national testing system (NAPLAN), a number of statistically significant improvements in the average levels of performance have been observed between 2008 and 2010, particularly between successive Year 3 cohorts. The majority of students are also performing at or above the national minimum standard in the six domains tested. However, as shown in Box 2, this standard represents achievement at a basic level only.

Box 2: NAPLAN and the minimum standard of achievement

NAPLAN results are reported using five national achievement scales, one for each of the NAPLAN domains of reading, writing, spelling, grammar and punctuation, and numeracy. Each scale consists of 10 bands, which represent the increasing complexity of the skills and understandings assessed by NAPLAN from Years 3 to 9. Six of these bands are used for reporting student performance in each year level. Student raw scores on tests are converted to a NAPLAN 'scale score' so that scores can be located on national scales for each domain.

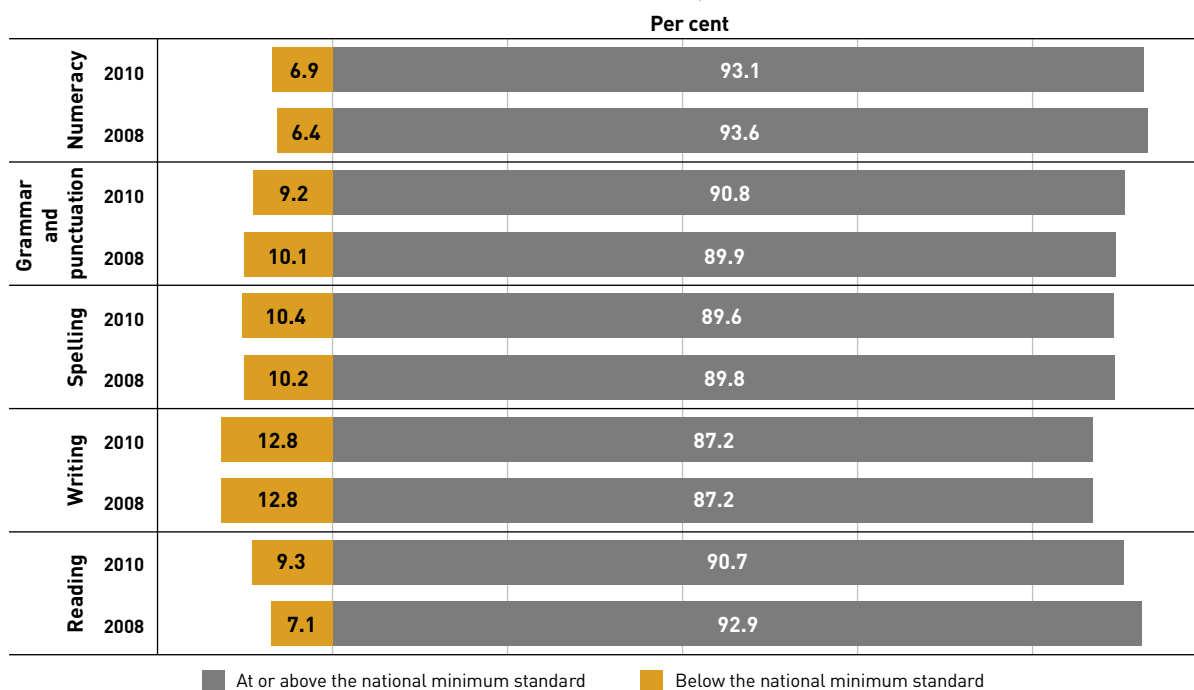
The second lowest band on each scale represents the national minimum standard expected of students at each year level. Students whose results are in the minimum standard band have typically demonstrated only the basic elements of literacy and numeracy for the year level.

Students whose results are in the lowest band for the year level have not achieved the national minimum standard for that year, and need focused intervention and additional support to help them achieve the skills they require to progress in schooling.

Despite these average achievements, some significant concerns prevail. An unacceptable percentage of students are not meeting the nationally agreed minimum standard of achievement in literacy and numeracy, with a higher number of Indigenous students, students from lower socioeconomic backgrounds, and students from remote schools not achieving this standard.

Data also show that more students in the later years of schooling are not meeting minimum standards. In 2010, between 7 and 13 per cent of Year 9 students did not meet the minimum standard of achievement in literacy and numeracy assessments (see Figure 10). These percentages are similar to the percentage of students who did not meet the proficiency baseline for reading literacy in PISA in 2009 (14 per cent of all students tested, as shown in Figure 8).

Figure 10: Percentage of Year 9 students above and below the national minimum standard for the five NAPLAN domains, 2008 and 2010



Source: ACARA 2010b, *NAPLAN achievement in reading, writing, language conventions and numeracy: National report for 2010*.

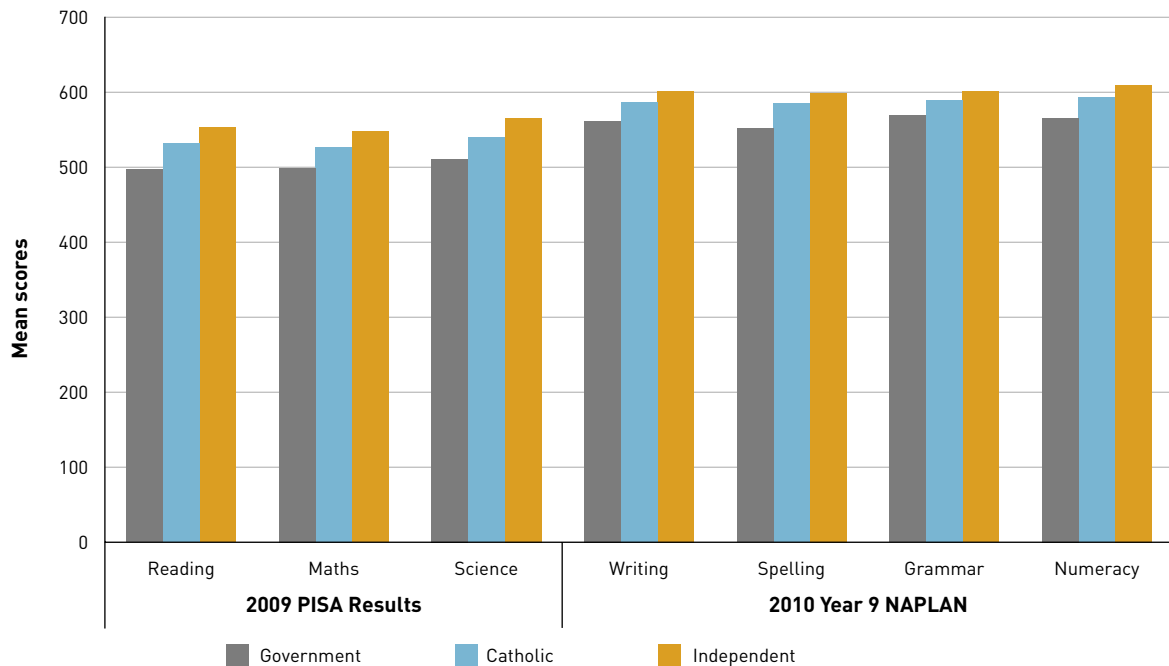
Outcomes across sectors and states and territories

There is considerable variation in performance across Australia's education sectors, and states and territories. Analysis of PISA and NAPLAN data indicates that a hierarchy of performance exists across the three schooling sectors (see Figure 11).

In both PISA and NAPLAN assessments in 2009 and 2010 respectively, the independent sector as a whole had the highest results, followed by the Catholic sector, and the government sector. This pattern of average performance is evident in every state and territory, and is also present for other measures of schooling performance, such as Year 12 attainment rates, absentee rates and tertiary entrance ratings (The Nous Group 2011).

The average performance of the three schooling sectors masks the substantial variability in student and school performance within and across the sectors. There is a notable difference in the outcomes of select-entry government schools and other government schools. In New South Wales, 11 of the 20 top schools in tertiary entrance assessment rankings were government schools, but only 28 of the top 100 schools were government schools. The government schools in the top 20 were selective high schools, with similar student characteristics to some independent schools (The Nous Group 2011).

Figure 11: Mean scores in national and international assessments by sector, 2009 and 2010



Source: Reproduced from The Nous Group 2011, *Schooling challenges and opportunities*, Figure 15.

In addition, performance varies between states and territories. While NAPLAN is only indicative of the four years of schooling and the five domains tested, it does show that some states and territories perform better than others. Table 5 shows how state and territory achievement compared in Year 9 reading in 2010.

However, Australia’s decline in overall performance is spread throughout all schooling sectors. For example, in PISA mathematical literacy testing, the percentage of 15 year-olds at Level 4 and above declined from 35 to 32 per cent in government schools between 2003 and 2009. In Catholic schools, the percentage of 15 year-olds at Level 4 and above fell from 48 to 43 per cent, and in independent schools from 61 to 52 per cent.

There are also some substantial variations in literacy and numeracy achievement across the states and territories as demonstrated in the 2009 PISA results. For the three PISA domains, all states and territories performed at or above the OECD average, except Tasmania and the Northern Territory. Students in these jurisdictions scored well below the national average and similar to the OECD average in all domains. In the Northern Territory in reading literacy, students scored significantly lower than the OECD average. The difference in mean scores between the highest and lowest performing state and territory equated to between one and one and a half years of schooling (Thomson et al. 2011).

Table 5: Comparative achievement of Year 9 students in reading in NAPLAN, by state and territory, 2010

State/ territory		NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
	Mean score	578.2	582.1	564.9	565.7	567.1	569.9	594.8	523.6	573.7
NSW	578.2		◆	▲	▲	▲	▲	●	▲	▲
Vic	582.1	◆		▲	▲	▲	▲	●	▲	▲
Qld	564.9	●	●		◆	◆	◆	●	▲	●
WA	565.7	●	●	◆		◆	◆	●	▲	●
SA	567.1	●	●	◆	◆		◆	●	▲	●
Tas	569.9	●	●	◆	◆	◆		●	▲	◆
ACT	594.8	▲	▲	▲	▲	▲	▲		▲	▲
NT	523.6	●	●	●	●	●	●	●		●
Aust	573.7	●	●	▲	▲	▲	◆	●	▲	

Notes: ▲ indicates average achievement significantly higher, statistically, than comparison state or territory.
 ◆ indicates no significant difference, statistically, from comparison state or territory.
 ● indicates average achievement significantly lower, statistically, than comparison state or territory.

Source: ACARA 2010b, *NAPLAN achievement in reading, writing, language conventions and numeracy: National report for 2010*.

In comparing outcomes, it is important to recognise that each state and territory is working from a different base and is presented with different challenges due to the profile of its students (see Table 6).

Some states and territories face far greater challenges than others. The Northern Territory has a high proportion of Indigenous students, students from the lowest quarter of socio-educational advantage, and students from remote and very remote areas. Tasmania also has a high proportion of students from the lowest quarter of socio-educational advantage. The Australian Capital Territory, in contrast, has far smaller proportions of disadvantaged students across the board.

Table 6: Student characteristics by state, territory and sector in Australia, 2010

	Students in remote and very remote areas ^(a) (%)	Indigenous students ^(b) (%)	LBOTE students ^(c) (%)	Students with disability ^(a) (%)	Students in the bottom quarter of SEA ^(c) (%)
NSW	0.5	4.4	28.1	5.4	30.2
Vic	0.1	1.2	25.3	5.0	28.6
Qld	2.8	6.6	6.4	4.1	30.0
SA	3.6	3.7	13.9	7.1	30.2
WA	6.9	6.4	15.2	3.2	29.0
Tas	1.1	6.7	4.8	4.5	44.6
NT	45.5	40.6	29.2	8.4	35.5
ACT	n.a.	2.2	16.3	3.8	11.3
Government	2.9	6.0	20.5	5.9	35.7
Catholic	1.4	2.1	19.5	3.7	21.6
Independent	0.7	1.8	16.8	2.1	12.8

n.a. = not applicable

Sources: (a) DEEWR administrative data 2010; (b) ABS 2011c, *Schools, Australia, 2010*, cat.no. 4221.0; (c) ACARA dataset 2011 based on the proportion of students and time of NAPLAN testing.

Equity of outcomes and performance of disadvantaged students

The variability in outcomes within and across Australia's schooling system that can be attributed to differences in students' backgrounds or circumstances indicates inequity in the achievement of outcomes. There are a number of student groups that, on average, achieve poorer educational outcomes than other students, and this correlates closely with factors of disadvantage. One group of students that has disproportionately poorer results in literacy and numeracy assessments and other measures of educational performance are students from low socioeconomic backgrounds. The relationship between socioeconomic background and the performance of students in PISA is pronounced, both in Australia and internationally, with socioeconomic status explaining 13 per cent and 14 per cent of variation in student performance respectively (Thomson et al. 2011).

Chapter 3.2 shows that, on average, students from low socioeconomic backgrounds, Indigenous students, students with disability, students from remote and very remote areas, and to variable degrees, LBOTE students:

- are more likely to be considered developmentally vulnerable at school entry
- have lower performance on assessments throughout schooling, with the gap getting larger in the later years of schooling
- have lower Year 12 and equivalent attainment rates.

Finding 2

The challenge for the review is to design a funding model that adequately reflects the different needs of students to enable resources to be directed to where they are needed most. All Australian students should be allowed to achieve their very best regardless of their background or circumstances.

1.2.3 Year 12 or equivalent attainment

Year 12 attainment is associated with numerous positive outcomes for the individual, society and the economy. Young people in Australia who have attained Year 12 have higher self-reported levels of health (ABS 2011a). They are also more likely to continue with further study, including higher education, and be employed in jobs with higher weekly earnings (see Figure 12). The Australian Government has recognised the importance of students achieving a Year 12 or equivalent qualification and, in conjunction with the states and territories, has set targets for improving Year 12 or equivalent attainment rates (see Box 3).

Box 3: COAG targets for Year 12 or equivalent attainment

On 29 November 2008, the Council of Australian Governments (COAG) agreed to a substantial reform package to increase Australia's productivity starting with the early years, and moving through school into the training system. Part of this reform agenda was the implementation of the National Education Agreement from 1 January 2009, under the Intergovernmental Agreement on Federal Financial Relations. The National Education Agreement includes two targets that specifically relate to Year 12 or equivalent attainment. These are:

- to lift the Year 12 or equivalent attainment rate to 90 per cent by 2020
- to at least halve the gap for Indigenous students in Year 12 or equivalent attainment rates by 2020.

On 30 April 2009, COAG agreed to accelerate the first target from 2020 to 2015. Delivered under the National Partnership on Youth Attainment and Transitions, the revised target aims to increase the proportion of young people aged 20 to 24 years who have attained Year 12 or equivalent or AQF Certificate II or above to 90 per cent by 2015. Equivalent attainment to Year 12 is defined as Certificate II or above for 2015 and Certificate III or above for 2020.

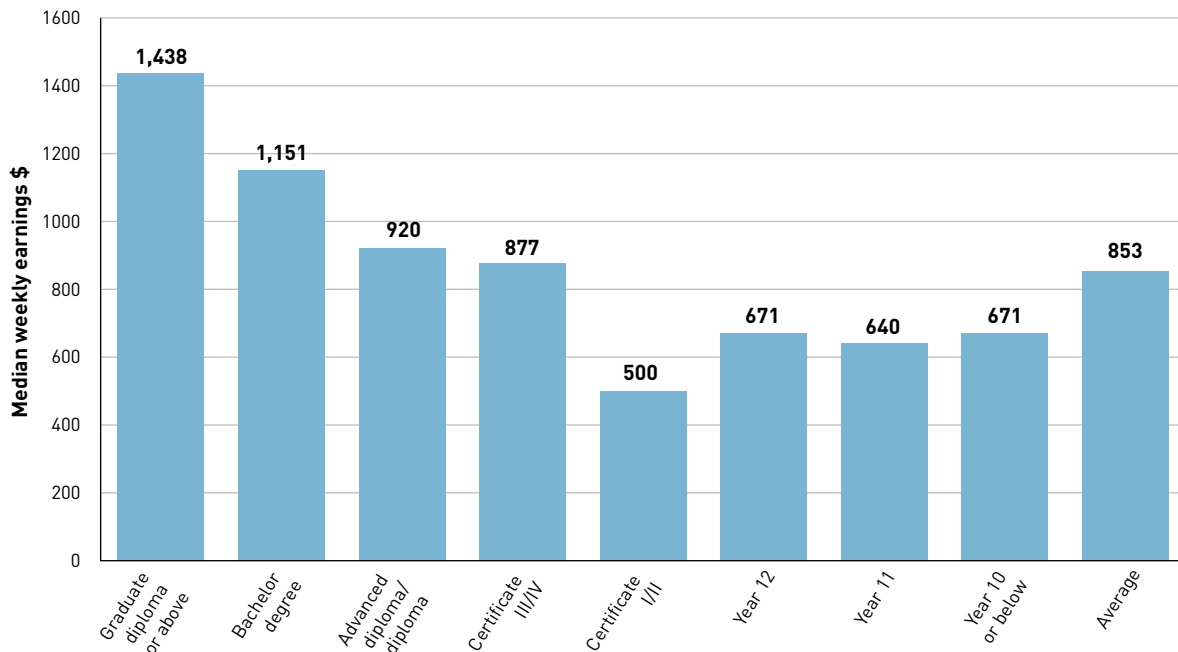
Students enrolled in senior secondary schooling may also have the option of completing Year 12 through vocational education and training (VET) programs, which enable them to undertake a range of industry-based subjects and attain an Australian Qualifications Framework (AQF) Certificate II or III. VET programs in schools may be conducted through specialised facilities (Australian Technical Colleges) or generic training centres (Trade Training Centres), but may also include school-based apprenticeships and, from 2012, National Trade Cadetships.

Students can also study AQF Certificate II, III or IV at Technical and Further Education (TAFE) and other training institutions.

In terms of benefits to the individual, completing Year 12 alone has been estimated to return a 15 per cent increase in lifelong earnings and close to a 20 per cent increase for completing an AQF Certificate III or IV (The Nous Group 2011). Year 12 or equivalent attainment also contributes to a more skilled workforce, and consequently ongoing economic development and improved living conditions.

KPMG Econtech (2010) has attempted to estimate the potential contribution of the COAG productivity agenda to labour productivity, labour force participation and the Australian economy. It found that the school reforms, specifically achieving the National Partnership target to increase Year 12 or equivalent attainment rates to 90 per cent by 2015, could generate medium to long term economic gains in the order of an annual average increase of 0.65 per cent in GDP over the period 2010 to 2040. This would be achieved through increased skill levels for the average Australian worker and would represent an additional \$11.8 billion (in 2008–09 prices) annually in the economy.

Figure 12: Median weekly earnings by highest level of education, 2009



Source: ABS 2010b, *Education and Training Experience, 2009*, cat. no. 6278.0.

Australia's current levels of attainment

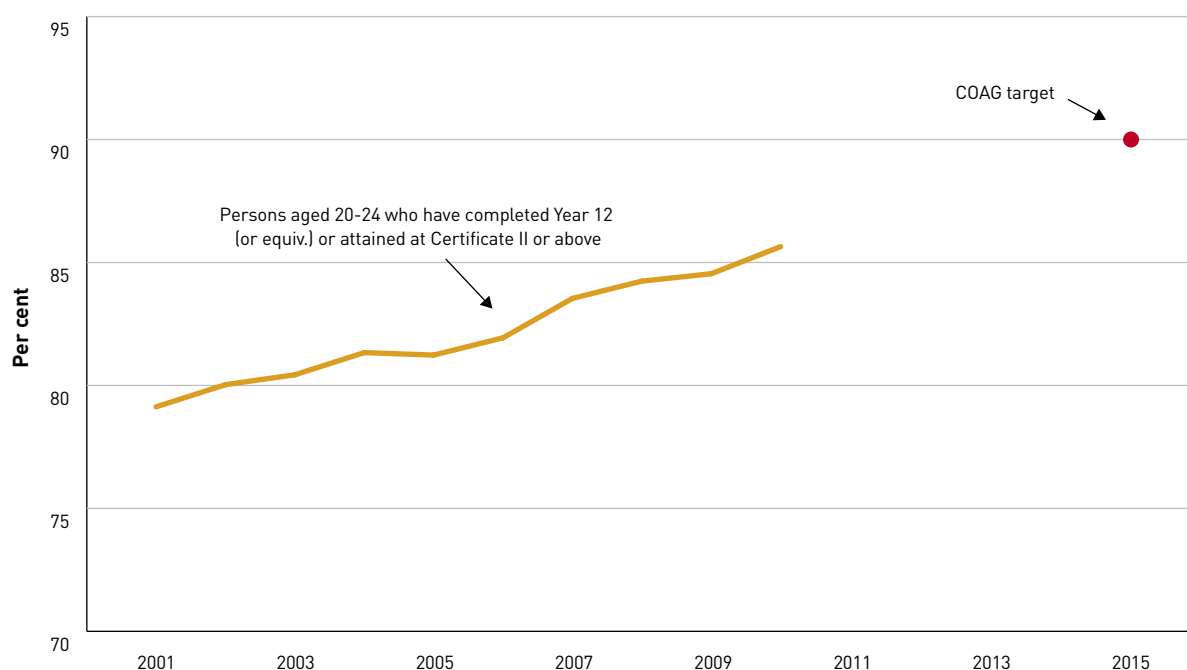
The number of Australian students who attain a Year 12 or an equivalent qualification has progressively increased over the past decade. In 2001, 79 per cent of the population aged between 20 and 24 had completed Year 12 or AQF Certificate II, and 77 per cent had completed Year 12 or AQF Certificate III. By 2010, these percentages had increased to 86 per cent and 84 per cent respectively (ABS 2010c). However, there remains a significant number of Australian students who do not attain Year 12 or equivalent.

Figure 13 shows progress against the Year 12 or equivalent attainment target for 2015. It indicates that with the progress made over the past decade, Australia looks likely to achieve the 2015 target.

Robust data cannot be derived from the ABS Survey of Education and Work on Year 12 or equivalent attainment rates for Indigenous students, as the sample size is too small. The best nationally consistent data is that collected through the ABS Census of Population and Housing. In 2006, the census showed that 47.7 per cent of Indigenous young people had completed Year 12 or equivalent, or an AQF Certificate II or above (ABS 2006). This represents an increase by some 6.6 percentage points from 2001 census data, and an average increase of 1.3 percentage points each year.

The absence of data means that measuring progress against the Indigenous student target is problematic. An estimated trajectory for the target has been set, which indicates the census intervals to 2020, and shows that the Year 12 or equivalent attainment rate for Indigenous people aged 20 to 24 needs to be 69 per cent for the gap to be halved. This projection is based on the achievement of the 2015 target.

Figure 13: Progress towards COAG target for Year 12 or equivalent attainment rate



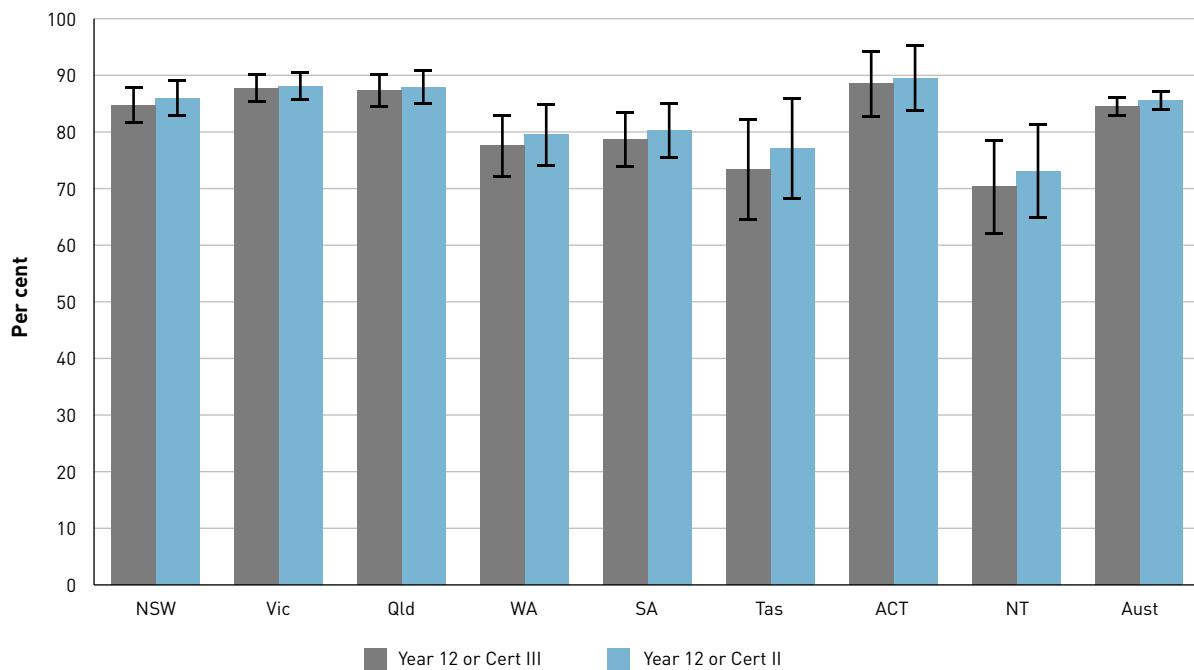
Source: ABS 2010c, *Education and Work, Australia, May 2010*, cat. no. 6227.0.

There is a clear need for further data on the Year 12 or equivalent attainment rates for Indigenous young people during inter-census years. It may be possible for these data to be collected through boards of studies certificates and VET completion data. While not nationally consistent, these data are available annually.

In addition to increasing Australia's performance in school and Year 12 or equivalent attainment rates, increases in participation in higher education are also warranted if Australia is to maintain its competitive advantage as a knowledge based economy (The Nous Group 2011). In 2008, the Review of Australian Higher Education (Bradley Report) proposed a national target of least 40 per cent of 25 to 34 year-olds having attained a qualification at bachelor level or above by 2020. The target represents an increase of some 7 per cent, with 33.3 per cent of 25 to 34 year-olds holding a bachelor's degree in 2009. Higher Year 12 attainment rates will be vital in realising this target.

Like the variations in PISA and NAPLAN results between the states and territories, the proportion of 20 to 24 year-olds who had attained Year 12 or Certificate III also varies considerably by state and territory, ranging from 70 per cent in the Northern Territory to 89 per cent in the Australian Capital Territory (see Figure 14). Attainment rates are affected by numerous factors, including literacy and numeracy outcomes, so the results are not surprising. Year 12 or equivalent attainment rates can also be influenced by interstate movements to pursue employment opportunities (ABS 2011a).

Figure 14: Proportion of 20–24 year-olds who had attained Year 12 or equivalent, 2010



Note: Error bars denote 95 per cent confidence intervals.

Source: ABS 2010c, *Education and Work, Australia, May 2010*, cat. no. 6227.0.

The opportunity cost of Australia failing to improve student performance and Year 12 or equivalent attainment rates, both in terms of an individual's life chances and in aggregate terms for the national economy, is significant. The Intergenerational Report 2010, *Australia to 2050: Future challenges*, states that over the next 40 years, Australia needs to achieve a productivity growth of 1.6 per cent per annum (up from an average of 1.4 per cent over the last decade) to sustain our GDP growth (The Treasury 2010). Growth of this magnitude demands increased student performance and Year 12 or equivalent attainment, and our schooling system needs to accommodate this.

Finding 3

Australia's schooling system needs to help ensure that the targets for students attaining Year 12 or equivalent qualifications are met and that students leave school with the skills and capacities required to actively participate in society, and contribute to Australia's prosperity.

Finding 4

Data indicate that Australia is on track to achieve the broader Year 12 or equivalent attainment target for 2015. However, the lack of data to measure progress against the target to halve the gap for Indigenous students in Year 12 or equivalent attainment is of serious concern.

1.2.4 Developing confident and creative individuals, and active and informed citizens

As reflected in the Melbourne Declaration, the outcomes of schooling are broader than just academic skills. As well as setting equity and excellence in school education as the number one national goal, the Melbourne Declaration focuses on the learning needs of all young Australians in the 21st century to ensure that 'all young Australians become successful learners, confident and creative individuals and active and informed citizens' (MCEETYA 2008). This goal emphasises the importance of young Australians developing personal morals and values, and attributes such as honesty, resilience, empathy and respect for others.

In response to the world becoming a more integrated, technological and global community, students must not only master the core skills, but also develop a capacity for problem solving and decision making; creative and critical thinking; collaboration, communication and negotiation; and technology and innovation. In the new Australian Curriculum, these skills and capacities are referred to as general capabilities.

A focus on the broader outcomes of schooling leads to a more holistic approach to education, encouraging students to become more resourceful and prepared for life beyond schooling. They are also known to have a positive impact on individuals and society, promoting trust and tolerance and leading to a healthier and more satisfied nation. However, the broader outcomes are often difficult to measure and compare within a national and international context.

Submissions to the review have highlighted the importance of schooling in equipping students for further education and the workplace. These submissions often noted that schooling is just one influence on a young person's development, and it can be difficult for schools to develop attributes among students such as confidence, creativity and the ability to solve problems without effective engagement with parents and families. In particular, parents play a critical role in shaping the expectations and attitudes of their children towards school and broader life.

It is important that outcome measures for schooling capture information beyond basic skills and also include information on the broader elements of a child's educational development. Work is underway through the National Assessment Program to survey students in Years 6 and 10 in each state and territory on civics and citizenship and information and communications technology (ICT) literacy. Students were first surveyed on civics and citizenship in 2004 and ICT literacy in 2005. The surveys are conducted on a periodic basis, and the results are publicly reported.

Australia is also a founding member of an international team that is leading the Assessment and Teaching of 21st Century Skills project. Together with three companies (Cisco, Intel and Microsoft), the project will propose ways of assessing general capabilities or '21st century skills', and will encourage systems and schools to incorporate these skills into teaching and learning programs. The skills that are the focus of the current research and development are problem solving, collaboration and ICT literacy. It is expected that the project will report in 2012.

A range of data also exists at the state and territory level, collected through instruments such as school destination surveys and parental satisfaction surveys, which provide insight into the broader outcomes of schooling. Some of the instruments used in different states and territories include *On Track*¹ (Victoria) and *Next Step*² (Queensland), both of which are large-scale school destination

1 *On Track Destinations of School Leavers* provides a comprehensive analysis of the destinations of Victorian students shortly after they leave school from Years 10, 11 and 12. This analysis includes destinations by gender, year level, socioeconomic status, and regional areas; reasons for not continuing in education and training; and details on the occupations and hours worked of employed school leavers.

2 *Next Step* is a survey of every student who completed Year 12 in the previous year in Queensland, in government and non-government schools. The survey collects information about the initial study and employment destinations of young people after leaving school.

surveys that can be used by schools as a resource for curriculum planning, professional development and to improve services to students. The *On Track* methodology has been applied to large cohort studies in New South Wales and pilot studies in South Australia. Western Australia uses a student intention and destination survey. Although these surveys may not use nationally consistent methodologies, they do provide a wealth of information to draw upon for measuring schooling outcomes.

There is a clear opportunity to collect nationally consistent information on a fuller range of schooling outcomes. Recommendations on measuring the outcomes of schooling and their relationship to school resourcing are set out in Part 4 of this report.

Finding 5

The performance of Australia's schooling system is about more than just literacy and numeracy results in national and international assessments and Year 12 or equivalent attainment rates. Defining and measuring the broader schooling outcomes is difficult and requires further development and information gathering if Australia wants to be able to gauge the effectiveness of its schooling system as a whole.

1.2.5 Conclusion

Australian students are on average performing well, both by national and international standards. However, this 'on average' performance masks both a decline in the overall performance across the entire distribution of students and the significant underperformance of students from lower socioeconomic and Indigenous backgrounds.

The decline in performance across the entire distribution of students and the extent of performance inequality is concerning and indicates that Australia's standing as one of the countries heading the world in education is slipping. Australia needs to arrest this decline and ensure that all students leave school with good key foundational skills and a capacity to contribute to the nation's future prosperity. Australia also needs to continue to progress towards the national targets for Year 12 or equivalent attainment, including the target for Indigenous students, to enable more young people to leave school with the knowledge, skills and capability needed to meet future labour force demands.

In addition, research shows a clear relationship between the socioeconomic backgrounds of students and their school performance. Addressing the performance decline and improving Year 12 or equivalent attainment rates will require a strong focus and priority within any funding model to address levels of need. There is currently wide variation in these outcomes within and across the schooling sectors and the states and territories, reflecting the different challenges they face. Australia must encourage a culture of high expectations for all students across the schooling system as a whole, but must also facilitate a lift in the sectors and the states and territories where the levels of need are greatest. In line with their levels of need, students from disadvantaged backgrounds, schools with high concentrations of disadvantaged students, and underperforming schools will require additional support (both financial and non-financial resources) to enable appropriate outcomes to be achieved across the schooling system.

Further attention also needs to be given to broader, more affective outcomes of schooling. These are less tangible than outcomes that can be derived through standardised assessments, though are of importance to Australia's social and economic prosperity.

2 Current funding arrangements

2.1 Roles of funding partners and systems

This chapter discusses the role of the Australian Government and state and territory governments as partners in providing funding for schooling, and details the mechanisms employed by each partner in funding government and non-government schools. The chapter also discusses the important role of school systems in distributing funding and supporting schools, as well as other structures that can provide support to non-systemic schools, such as Associations of Independent Schools and Block Grant Authorities.

The chapter concludes by discussing a number of the challenges with the current funding arrangements and identifies opportunities for creating a more coherent and transparent funding approach across both levels of government, addressing the funding imbalance between the Australian Government and state and territory governments, and strengthening the data collection and accountability of school systems.

2.1.1 A partnership approach

It has been well established for some time that schooling in Australia operates as a partnership between the Australian Government, state and territory governments and the non-government school sector. This partnership recognises a range of national objectives and outcomes, as well as a number of shared reform directions of national significance. The most recent manifestation and evolution of this partnership is the Melbourne Declaration and the National Education Agreement.

Funding for schooling is shared between state and territory governments and the Australian Government. Income from private sources, through parental fees, fundraising activities and philanthropic contributions, is also an important part of the revenue base of schools, particularly those in the non-government sector. This funding mix has resulted in a complex funding environment, with an array of funding models that interact to provide the total level of funding to individual schools (Deloitte Access Economics 2011).

The emergence of Australian schooling being a partnership with a range of stakeholders has demanded the development of intergovernmental agreements and shared policy statements to give effect to this evolving concept. The most recent is the Intergovernmental Agreement on Federal Financial Relations, of which the National Education Agreement is a schedule, which provides a framework for policy collaboration on schooling between all governments. It also represents a new and evolving approach to the way the Australian Government provides funding to the states and territories for government schools. This approach has simplified the number of funding streams and focuses on the achievement of outcomes rather than specifying input controls.

The strength of the Federal Financial Relations Framework is that it acknowledges that schooling, among a number of other areas, is a national issue that requires a coordinated approach by governments. It also recognises the important role that state and territory governments have as owners and primary funders of government schools, and in allocating funding (from both Australian Government and state and territory government sources) based on local needs and considerations. However, some challenges remain, particularly in relation to how the Australian Government might determine and adjust its funding role to accommodate the constantly changing nature of schooling. A further challenge is determining the most appropriate level of information which is provided by the states and territories on how funding is allocated to schools, and how best to research and report on the impact that funding is having on student outcomes.

Over time in the non-government school sector, the Australian Government has become the primary public funder, with state and territory governments playing a supplementary funding role. As discussed briefly below, this is an artefact of Australian history and a reflection of the increasing cost of providing an acceptable and contemporary level of education, rather than a planned goal by successive Australian Governments to become directly involved in the provision of schooling, or to be the primary public funder of non-government schools.

It is important that both levels of government work in partnership to provide funding for the non-government school sector. The sector makes a significant contribution to progressing the national objectives and outcomes of schooling as it educates 34 per cent of all Australian students. Like government school systems, non-government systems provide many benefits in supporting their member schools, and in redistributing and allocating funding and school income to schools based on the needs of individual schools. While not formal systems, Associations of Independent Schools in each state and territory also play a beneficial role in supporting the significant number of non-systemic independent schools on industrial, governance and professional learning matters. Some Associations employ specialist staff to work with schools on these matters.

2.1.2 Australian Government funding for schooling

The Australian Government has limited constitutional power in respect of schooling, and the authority it has relates mainly to its powers to make grants to the states and territories for schools, provide benefits to students, and regulate corporations.

The Australian Government began to provide funding for schooling during the 1960s in response to concerns about resource adequacy across sectors and jurisdictions to provide the level and quality of schooling that would meet Australia's needs. These concerns stemmed from rapidly growing school enrolments in the post-war period, a broadening curriculum and infrastructure constraints, and were all viewed as requiring a national approach (Wilkinson et al. 2006). In addition, the Catholic sector had experienced a significant shift in the composition of its teaching workforce from religious to lay teachers, which in turn increased pressure on the resourcing of the sector.

The transfer of income taxation powers to the Australian Government in 1942 also exacerbated disparities between the expenditure responsibilities and revenue-raising capacities of the states and territories and the Australian Government (known as vertical fiscal imbalance). Further, there were differences between the states and territories in terms of their capacity to meet growing educational needs, especially in areas such as Indigenous education.

The goal of bringing all schools up to acceptable standards in terms of adequacy of resource inputs was one of the major directions of the Karmel Report and of the Australian Government's funding policy for schooling over the subsequent period.

Over the last decade, as part of the evolving nature of the national partnership in schooling, the Australian Government, in conjunction with the states and territories, has played a major role in setting national policies to ensure that Australia's schooling effort remains competitive within the current and future global environment.

Some of these policies have directly related to schooling, while others have been aimed at providing the states and territories with the resources to meet their constitutional obligations, including to schooling. For example, the introduction of the goods and services tax (GST) and the equalisation process to redistribute GST revenue to the states and territories is one such policy which aims to ensure each jurisdiction has appropriate resources to deliver services across its population. The past

decade saw an increase in the Australian Government's total investment in schooling from \$4.8 billion in 1999–2000 to \$20 billion in 2009–10³ (The Treasury 2000b; The Treasury 2009–10).

Other policies have attempted to make clear the link between national outcomes and reforms in specific policy areas. For example, through COAG, the Australian Government and state and territory governments have agreed to new priorities and reforms aimed at lifting national productivity and building social inclusion by implementing national initiatives in early childhood, schooling, tertiary education, employment and workplace relations. This reform agenda was implemented under the Federal Financial Relations Framework, and has been accompanied by a significant increase in Australian Government funding for schooling, mostly as a result of National Partnerships, as set out below.

Federal Financial Relations Framework

The Federal Financial Relations Framework began on 1 January 2009 and provides an approach to all Australian governments collectively progressing economic and social reforms. Central to the framework is the *Federal Financial Relations Act 2009*, the *COAG Reform Fund Act 2008*, and the corresponding Intergovernmental Agreement. The introduction of the framework also saw the rationalisation of a number of Australian Government Specific Purpose Payments (SPPs) to the states and territories, reducing the number of such payments from over 90 to five.

Under the framework, centralised bulk payments are made from the Australian Government Treasury to state and territory treasuries for general or specific purposes. General revenue assistance, including GST payments, can be used by the states and territories for any purpose including schooling. SPPs and National Partnerships are to be used for specific purposes, like schooling.

Funding for government schools

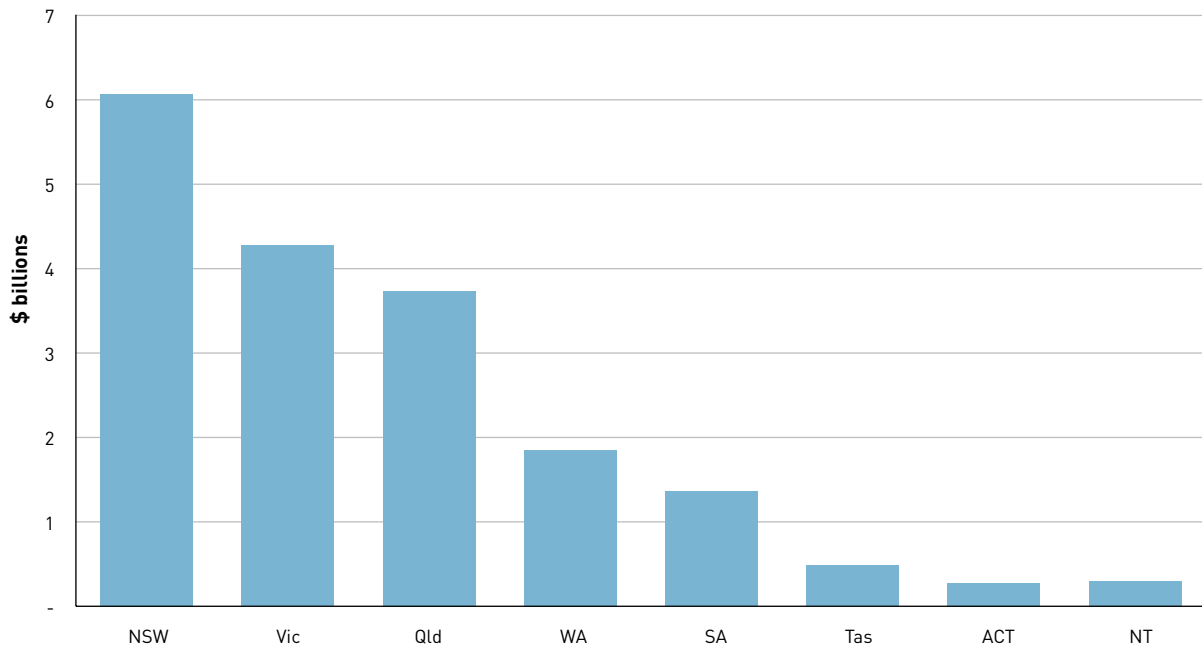
The National Schools SPP is providing \$18.3 billion to government schools over 2009 to 2013 (see Figure 15). This includes previously separate Australian Government recurrent funding, as well as specific payments that were made for capital grants, targeted programs, and a number of additional programs for defined areas of schooling. State and territory governments now have flexibility in how they spend this funding across schooling, provided they are working towards the mutually agreed outcomes and performance benchmarks specified in the National Education Agreement.

Prior to 2009, Australian Government recurrent funding for government schools was provided at 8.9 per cent and 10 per cent of the Average Government School Recurrent Costs (AGSRC) amounts for primary and secondary school students respectively for each full-time student enrolment. From 2009, these percentages were increased to 10 per cent of the AGSRC amounts for each full-time primary and secondary student enrolment. In addition to recurrent funding, capital, targeted, Indigenous and other specified programs were 'rolled in' to form the base of the National Schools SPP. The base is adjusted annually to reflect changes in government school enrolments and growth in the AGSRC per student amounts.

In addition to the National Schools SPP, nine National Partnerships are providing a further \$24.78 billion in funding to government and non-government schools in a number of priority reform areas, with the majority of this funding to be expended by 2014–15 (see Table 7).

³ Australian Government funding for schooling in 2009–10 included \$9.4 billion provided under the Building the Education Revolution National Partnership.

Figure 15: National Schools SPP funding by state and territory, 2009 to 2013



Sources: The Treasury 2008–2010, *Final budget outcome 2009–10*; The Treasury 2011b, *Budget 2011–12: Portfolio budget statements*.

Table 7: National Partnerships for schooling

National Partnership	Funding period	Total funding (\$)	Reward component	Proportion allocated to reward (%)
Trade Training Centres in Schools	2009–17	2.47 billion	—	—
Digital Education Revolution	2008–15	2.50 billion	—	—
Building the Education Revolution	2008–12	16.31 billion	—	—
Smarter Schools—Literacy and Numeracy ^(a)	2008–12	511 million	✓	68
Smarter Schools—Low SES School Communities	2009–15	1.49 billion	—	—
Smarter Schools—Improving Teacher Quality ^(b)	2008–13	444 million	✓	79
Youth Attainment and Transitions	2009–14	725 million	✓	14
Closing the Gap in the Northern Territory	2008–12	147 million	—	—
More Support for Students with Disabilities ^(c)	2011–14	196 million	—	—
Total		24.78 billion		

(a) The remaining funding from the \$540 million announced is COPE funding.

(b) The remaining funding from the \$550 million announced is COPE funding.

(c) The remaining funding from the \$200 million announced is COPE and DEEWR departmental funding.

Source: The Treasury 2008–2011, *Final budget outcome 2007–08, 2008–09, 2009–10 and 2010–11*.

The Australian Government, state and territory governments and the non-government school sector are currently negotiating a further National Partnership for the Empowering Local Schools initiative, with negotiations expected to be complete by the end of 2011. Under the initiative, the Australian Government has committed \$69.1 million, with the bulk of this funding to be expended over 2011–12. The initiative aims to increase the capacity of schools to make decisions at the local level.

Unlike the National Schools SPP, each National Partnership provides funding for government and non-government schools. They generally have a co-investment requirement that obliges the state or territory (or where relevant the non-government education authority) to continue their own expenditures. These arrangements can be expressed in different ways, from dollar-for-dollar matching (as for the Trade Training Centres National Partnership) to maintaining the pre-existing levels of spending (as for the Building the Education Revolution and Digital Education Revolution National Partnerships).

Some \$800 million in National Partnership funding has been set aside for reward payments under three National Partnerships: the Smarter Schools—Improving Teacher Quality and Smarter Schools—Literacy and Numeracy National Partnerships, and the Youth Attainment and Transitions National Partnership. Under the two Smarter Schools National Partnerships, reward payments represent the major component of funding (see Table 7). Reward payments are contingent on meeting performance benchmarks as assessed by the independent COAG Reform Council. For some National Partnerships, states or territories may receive a pro-rata share of the reward funding if they partly achieve targets.

While most of the funding provided under the National Partnerships will cease by 2014–15, some funding will continue under the Smarter Schools—Low Socioeconomic Status School Communities, Digital Education Revolution and Trade Training Centres in Schools National Partnerships into and beyond 2014–15. There is no provision for indexing funding amounts for any of the National Partnerships.

A small number of Commonwealth own-purpose expenses continue to be administered to government education authorities under programs outside the National Schools SPP and National Partnerships. These are specific initiatives that align with the Australian Government's policy priorities, such as the National Asian Languages and Studies in Schools Program and the National Schools Chaplaincy Program.

National Education Agreement

The National Schools SPP and nine National Partnerships are delivered in line with the National Education Agreement, which contains the objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities that guide the Australian Government and state and territory governments in schooling.

Consistent with the partnership concept that has become part of Australia's approach to funding for schooling, the Australian Government's funding responsibilities under the National Education Agreement extend to ensuring that funding arrangements for the non-government sector are consistent with and support the responsibilities of the states and territories. It also specifies responsibility for the allocation of funding to support improved service delivery and reform, including for students with particular needs.

The National Education Agreement also sets out shared responsibilities of the Australian Government and state and territory governments. Among a number of other responsibilities, the agreement states that all governments should fund schooling to enable improved performance in nationally agreed outcomes, design the funding mechanism by which the Australian Government funds the states and territories, and support Indigenous outcomes.

Funding for non-government schools

The Australian Government is currently the primary public funder of non-government schools. Funding is administered through the *Schools Assistance Act 2008*, and includes three main streams of funding: recurrent, capital and targeted. More than \$36 billion is being provided to non-government schools under the Act over the period 2009 to 2013. Recurrent funding is driven by enrolments and a school's funding level is derived either on its socioeconomic status (SES) score, or a Funding Maintained or Funding Guaranteed amount (see Chapter 2.3). Schools can also attract loadings for remoteness and for high numbers of Indigenous students. Recurrent grants are supplemented annually in line with movements in AGSRC.

Chapter 2.4 provides information on the current operation and indexation of the Australian Government's Capital Grants Program in the non-government school sector. The targeted programs administered under the *Schools Assistance Act 2008* mostly provide support for disadvantaged students. These include the Literacy, Numeracy and Special Learning Needs Program, the Country Areas Program, and the English as a Second Language—New Arrivals Program. However, a program to support students in non-government schools to learn languages other than English (the School Languages Program) and funding for schools that have been affected by unforeseen, emergency circumstances (Short Term Emergency Assistance) are also administered as targeted programs under the Act. Targeted program funding is allocated through non-government system authorities and Associations of Independent Schools, rather than directly to schools, and is indexed annually using the AGSRC index (see Chapter 2.2). Like the government sector, non-government schools also receive funding through the National Partnerships for schooling and various Commonwealth own-purpose expenses.

2.1.3 State and territory government funding for schooling

State and territory governments are the primary funders of government schools, but do so in ways that are complex and vary substantially among jurisdictions. They also provide some recurrent funding to non-government schools, including funding for some disadvantaged students, and this is generally based on a percentage of costs in their respective government schools. The quantum of financial support provided to non-government schools from state and territory governments differs significantly between jurisdictions (Keating et al. 2011).

Funding for government schools

In general, state and territory government school systems fund schools based on a variety of formulas to determine a school's recurrent or base allocation, and then add weightings and multipliers for students facing disadvantage. Discrete programs and initiatives are also generally determined using a formula (Keating et al. 2011). Further information on state and territory government funding for capital projects in government schools and for disadvantaged students can be found in Chapter 2.4 and Chapter 3.3 respectively.

Broadly speaking, each state and territory government school system allocates funding to government schools through one of two methods. The first is a central resource allocation that allocates staff and other resources, including school consumables, to schools. The second is a budgetary allocation that is provided to schools, which then make decisions about how the funding is spent. Most government systems use a mixture of these methods, with the level of budgetary responsibility afforded to schools varying across states and territories (Keating et al. 2011).

Table 8: State and territory recurrent and targeted funding for government schools

Recurrent and targeted funding for government schools		
Jurisdiction	Method of funding	Allocation
New South Wales	Centralised system involving: <ul style="list-style-type: none"> • central allocation of resources—staff allocation is based on a statewide formula • direct central payments of school-based costs 	Resources distributed to schools in five categories: <ul style="list-style-type: none"> • staffing and salaries (based on student numbers, school type, school characteristics and student profiles) • global funding (cash allocation to schools to meet operational costs such as energy rates) • tied and untied grants (for initiatives such as teacher professional learning, community language schools, boarding scholarships for isolated students) • capital works and maintenance • cleaning
Victoria	School budget allocation through: <ul style="list-style-type: none"> • the Student Resource Package (incorporates teaching costs, school running costs and targeted initiatives) 	<ul style="list-style-type: none"> • Schools have high degree of autonomy over the allocation of funds through the Student Resource Package including over some staff appointments • Needs-based funding built into school budgetary formula based on assessments of student need
Queensland	Centralised system involving: <ul style="list-style-type: none"> • direct central payments of school-based costs (mainly staffing) • central allocations of grants (core and targeted) • centrally delivered services (teacher professional learning, scholarships) 	<ul style="list-style-type: none"> • Staff allocation and grants through statewide formula at three levels: central, regional and schools • Needs-based funding included within staffing and grant allocations • Grants (54 core and 25 targeted) to support specific programs, including disadvantage
Western Australia	Two systems: <ul style="list-style-type: none"> • mainstream—centrally allocated • independent public schools—school budget allocation 	<ul style="list-style-type: none"> • Mainstream school staffing mainly through statewide formula (incorporates needs-based through multipliers and weightings for staff) • Independent public schools allocated one-line budget providing autonomy over expenditure
South Australia	School-based allocation provided through the student-centred funding model	Three elements: <ul style="list-style-type: none"> • a base allocation (based on school type and size) • per capita allocation (based on year level) • program-based allocation (for disadvantaged students)
Tasmania	Centralised and school-based systems: <ul style="list-style-type: none"> • centrally allocated staff • schools resources package • centrally run targeted programs (predominantly National Partnerships) 	<ul style="list-style-type: none"> • Staff are centrally allocated and allocation for disadvantaged students is incorporated into staffing allocation • Schools resource package allows some decisions at school level (maintenance and minor works, energy and water)
Australian Capital Territory	Centralised system	<ul style="list-style-type: none"> • Direct central payments of school-based costs • Central allocation of resources (including staff, with provision for disadvantaged students) • Central payments for school-based expenditure
Northern Territory	Centralised system	<ul style="list-style-type: none"> • Central staffing allocation (70% enrolment-based and 30% equity-based) • Targeted programs (with base and equity components)

Source: Adapted from Keating et al. 2011.

In some jurisdictions, such as New South Wales and Queensland, central control is still a strong feature, while Victoria and South Australia are the most decentralised systems. A number of other states are implementing greater devolution in school budgeting, such as Western Australia where independent public schools operate one-line budgets, giving schools autonomy over expenditure. However, even in jurisdictions where decision making has been largely devolved to the school level, accountability and reporting obligations, or a requirement to operate within set policy guidelines or departmentally determined contractual arrangements, limit the decision making and the flexibility of schools (Deloitte Access Economics 2011). Table 8 summarises state and territory government recurrent and targeted funding arrangements for government schools.

Funding for non-government schools

State and territory governments provide funding to non-government schools for recurrent and targeted purposes, usually through per capita allocations that are either a fixed percentage based on the state or territory AGSRC (sometimes adjusted to exclude costs not applicable to non-government schools) or an overall quantum of funding that has been agreed over time with the non-government sector (Deloitte Access Economics 2011).

Table 9: State and territory recurrent funding for non-government schools, including funding for disadvantaged students

Jurisdiction	Determination	Recurrent funding	
		Allocation	
New South Wales	<ul style="list-style-type: none"> Non-government school funding pool set at 25% of NSW AGSRC 	<ul style="list-style-type: none"> Distributed according to the 12 categories of the former Education Resources Index (ERI) system with separate rates for primary and secondary students Catholic systemic schools funded at category 11 	
Victoria	<ul style="list-style-type: none"> Victorian Government has committed to increasing the funding pool to 25% of the Victorian AGSRC Indexed annually 	<ul style="list-style-type: none"> Financial Assistance Model allocates per capita (41%) and needs components (59%) Needs component allocated on family background measure plus other student and school characteristics 	
Queensland	<ul style="list-style-type: none"> Link with state school costs (currently 21.21% of Queensland AGRSC) 	<ul style="list-style-type: none"> Approximately three-quarters of funding is allocated as a per student base component with different rates for preschool, primary and secondary Remainder is distributed on a needs basis using a weighted combination of the Australian Government's SES score, the Schools Resource Index, isolation and other measures 	
Western Australia	<ul style="list-style-type: none"> Pool of funding set at no less than 25% of the WA AGSRC 	<ul style="list-style-type: none"> Per capita rates vary by school level and category of need with 10 funding categories based on the ERI 	
South Australia	<ul style="list-style-type: none"> Previous year's allocation adjusted for inflation including 25% of agreed salary movement in SA Department for Education and Child Development and a Treasury-determined factor for the non-salary component 	<ul style="list-style-type: none"> Per capita component based on enrolments, with higher rates for secondary than primary, and a needs component based on characteristics of schools and students Additional funding for students with special needs 	
Tasmania	<ul style="list-style-type: none"> 19.11% of state AGSRC 	<ul style="list-style-type: none"> Allocations based on enrolments, SES scores and school-level weighting Needs-based distribution reflects the Australian Government-determined SES scores 	
Australian Capital Territory	<ul style="list-style-type: none"> Historical grant amounts indexed by Consumer Price Index and adjusted for ad hoc increases 	<ul style="list-style-type: none"> Per capita basis according to funding scales based on ERI 	
Northern Territory	<ul style="list-style-type: none"> 21% of the NT AGSRC 	<ul style="list-style-type: none"> Per capita basis with separate rates for primary, secondary, remote and severely disabled students 	

Source: Adapted from Keating et al. 2011.

The levels of funding vary, along with the mechanisms used to allocate it. A number of jurisdictions have made policy or legislative commitments to maintain funding to non-government schools at various percentages of their own state-specific AGSRC. These percentages vary from 19 per cent to just over 25 per cent. A number have no formal link and use a historical level of funding indexed for inflation.

The method for allocating recurrent funding in most jurisdictions has core and needs-based elements. The needs-based elements are calculated using various methods including school Education Resources Index scores calculated under the old methodology up to 2001 (see Chapter 2.3), the current SES methodology or a state or territory’s own measure of need. Funding is also provided to support targeted groups of students, such as students with disability and students in remote locations. Table 9 illustrates the different ways in which recurrent and targeted funding is provided to non-government schools within the different jurisdictions.

A number of states and territories also provide support for capital projects in non-government schools, mostly through low-interest loan or interest subsidy schemes.

2.1.4 Role of school systems

A significant feature of Australian schooling is that all government schools, most Catholic schools and some independent schools are members of systems. There are 34 separate system authorities across Australia, including the education departments and Catholic education commissions in each state and territory. The remaining 18 systems are in the independent school sector. Only a small number of independent schools are governed by these authorities (see Table 10).

Table 10: Full-time equivalent enrolments in systemic schools, 2010

	Systems	Schools	Primary enrolments	Secondary enrolments	Total enrolments
Government schools	8	6,743	1,390,543	901,255	2,291,798
Catholic systemic schools	8	1,638	380,092	278,360	659,451
Independent systemic schools	18	178	43,100	40,065	83,165
Total	34	8,559	1,814,734	1,219,680	3,034,414

Source: DEEWR administrative data 2010.

Systems receive block funding to distribute to schools using their own methods and formulas. The role of systems in distributing funding is very important in the context of the contemporary partnership approach to schooling.

The Australian Government is not a provider of schooling. Efficient and well-functioning school systems provide assurance to the Australian Government that Australia has an effective and efficient schooling effort without it needing to become involved as a provider of schooling. Consistent with the general principle of subsidiarity, this enables Australia, with its large landmass and relatively small population, to allocate the responsibility of the delivery of schooling to systems within the government and non-government sectors.

The *Schools Assistance Act 2008* and associated guidelines require a non-government entity to meet certain requirements before it is recognised as a school system. In addition to a number of administrative criteria, proposed school systems must be a body corporate and consist of a minimum

of 20 approved schools that are in receipt of Australian Government recurrent funding. Most of the current systems that were set up prior to 2009 have fewer than 20 schools (see Table 11).

Table 11: Independent schools systems, 2010

Affiliation	System	Number of schools
Lutheran	Lutheran Education Queensland	26
	Lutheran Education South Eastern Region (Vic, Tas, NSW)	33
	Lutheran Schools Association of SA, NT and WA	15
Seventh-day Adventist	Adventist Education Victoria	6
	Greater Sydney Adventist Schools	3
	Northern Australian Conference of Seventh-day Adventists	10
	Seventh-day Adventist Church in South Australia	3
	Seventh-day Adventist Church North New South Wales	2
	South New South Wales Conference of the Seventh-day Adventist Church	7
	South Queensland Conference Seventh-day Adventist Church	2
	Tasmanian Conference of Seventh-day Adventists	7
	Western Australian Conference of the Seventh-day Adventist Church	6
	Anglican Schools Commission (Western Australia)	5
Anglican	Sydney Anglican Schools Corporation	9
	The South Australian Anglican Schools System	9
Christian	Northern Territory Christian Schools Association	9
	Swan Christian Education Association	7
Other	Victorian Ecumenical System of Schools	19
Total		178

Source: DEEWR administrative data 2010.

Under the guidelines, a system has overall responsibility for the distribution of funding and other resources between member schools. It also accepts responsibility for the long-term viability of member schools, as well as any liabilities to the Australian Government incurred by those schools.

Systems play a valuable role in developing new schools and supporting existing ones. Some advantages of being part of a system include:

- creating efficiencies and enabling economies of scale in relation to schools being able to purchase expertise and equipment
- ability to pool funds, leading to greater purchasing power of goods and services
- capacity of systems to enhance compliance and accountability
- ensuring financial viability of member schools
- cross-subsidising across the system to support developing and existing schools
- ability to redistribute and allocate funding to focus on particular issues, such as managing students with specific needs
- participating in system school improvement and reform initiatives.

It is essential that systems are transparent about the income they receive from all sources, including funding that is provided to system authorities from their member schools.

The 26 non-government school systems differ in their funding methodologies and formulas for distributing Australian Government recurrent funding, and limited information is collected on these methods. Smaller systems are known to distribute funding according to the SES score of their member schools.

System authorities are able to withhold up to 2 per cent of Australian Government recurrent grants for administrative purposes (DEEWR 2010). Non-government school systems and state and territory Associations of Independent Schools are also able to retain a proportion of Australian Government targeted funding for administrative purposes, although for most programs, the guidelines are silent on the percentage which can be retained. Some systems withhold funds for centrally run activities such as professional learning for principals and teachers. Other systems may not withhold funds from programs, but charge member schools a levy from which administrative costs or other corporate overheads are met.

2.1.5 Non-systemic independent schools

Setting aside non-systemic Catholic schools, some 836 independent schools are non-systemic and have a direct funding relationship with the Australian Government (see Table 12). As discussed in Chapter 1.1, there are 72 non-systemic Catholic schools including six schools that self-identify as Catholic.

While Australian Government recurrent grants are paid directly to non-systemic schools, Associations of Independent Schools manage and administer Australian Government targeted programs, and a number of state and territory government programs that are available to all independent schools in their jurisdiction. Together with Block Grant Authorities, Associations of Independent Schools also manage and allocate Australian Government capital grants funding. It is not a requirement that every non-systemic independent school becomes a member of the Association of Independent Schools in its state, though it is usually seen as necessary to receive program funding.

Table 12: Full-time equivalent enrolments in non-systemic schools, 2010

	Number of schools	Primary enrolments	Secondary enrolments	Total
Independent non-systemic schools	836	187,885	221,094	408,979
Catholic non-systemic schools	72	9,579	44,593	54,171
Total	908	197,464	265,687	463,151

Source: DEEWR administrative data 2010.

2.1.6 Future opportunities

Partly through Australia's consistent development and implementation of its partnership approach, good progress has been made towards achieving greater national consistency in a number of areas of schooling. A recent review undertaken by the OECD of evaluation and assessment in education in Australia commended Australia's national system for assessments (NAPLAN) and commitment to transparency through school performance and financial reporting on the *My School* website. The report noted that these measures provided a good structure to integrate accountability and improvements (OECD 2011c). Australia's measurement framework for national key performance measures is also linked to the national goals, objectives and outcomes for schooling set out in the Melbourne Declaration and the National Education Agreement. These act as solid reference points

for collaborative action, with many states and territories linking their strategic plans and goals to the national goals (OECD 2011c).

The commitment to develop a national curriculum is another example that reflects a willingness of the Australian Government, state and territory governments, and the non-government sector to work together across geographical and school sectoral boundaries to deliver a high-quality education for all young Australians. Working together makes it possible to harness collective expertise, with additional benefits such as the reduction in the duplication of time, effort and resources.

However, funding for schooling is one area where efforts have been limited in working towards a nationally consistent approach. There is a distinct lack of coherence in the way governments fund schooling, particularly in relation to directing funding to schools based on student need and in a consistent manner across states and territories and schooling sectors.

There is also an imbalance in terms of the funding responsibilities of the Australian Government and state and territory governments in funding all schools and in supporting disadvantaged students.

A national approach to funding schooling must address this imbalance. It must also strike a balance between setting funding policies at a national level while entrusting state and territory governments and non-government school systems to make decisions about the allocation of funding based on local needs and considerations.

Systems are often best placed to allocate resources in ways that are responsive to the specific needs of schools and their communities, while achieving various efficiencies through economies of scale. In allocating resources, however, they should be accountable for the funding decisions made, particularly around the funding that is provided to support educationally disadvantaged students. Shared funding responsibilities are likely to be best accepted by all parties when funding and accountability arrangements are highly transparent.

A more coherent and transparent approach to funding

The range of programs and funding streams at both the Australian Government level for non-government schools, and at the state and territory level for government and non-government schools, are extensive. Funding is often provided in an uncoordinated way, and it is not always clear that funding is provided by the right level of government, based on their ongoing ability to consistently provide that funding.

Deloitte Access Economics (2011) found that governments tend to fund a number of policy areas without regard to the practices of other funding partners. This particularly applies to funding that is provided to support educationally disadvantaged students. It can be difficult for schools and the broader community to determine the level of funding that is required to support these students from both levels of government. In some states and territories this 'funding' will be in the form of additional staff, in others it will be dollars a school can spend at its discretion. This difficulty leads to significant challenges in measuring the impact of the funding in supporting improved educational outcomes for students with various forms of disadvantage.

Current Australian Government and state and territory funding for non-government schools is a patchwork of different funding methodologies and models that have accrued over a long period of time. These arrangements are complex, confusing, opaque and inconsistent among jurisdictions, and obscure educational goals and accountability.

Despite efforts under the Federal Financial Relations Framework to rationalise the number of Australian Government SPPs for government schools into a single National Schools SPP, a large

number of National Partnerships and specific initiatives continue to operate outside the global funding allocation. These programs are expensive to administer at both an Australian Government and state and territory government level.

Funding can also be provided by governments in an ad hoc or informal way, such as the funding provided by state and territory governments for non-government schools that is often not legislated or subject to formal agreements. These practices also contribute to the opaqueness of funding.

There is a clear opportunity for all governments to build on the national partnerships and linkages that are currently in place and seek to achieve greater coordination in the way schools are funded across all schooling sectors. This could be achieved through a common funding framework, which would include a schooling resource standard and strengthened governance and accountability arrangements. The framework would provide greater transparency and coherence in how funding is allocated to systems and schools, including greater clarity in the allocations provided for educationally disadvantaged students.

Such a framework demands collaboration between the Australian Government, state and territory governments and the non-government school sector. Chapter 4.2 provides further detail and recommendations on a common funding framework for Australian schooling.

Finding 6

Australia lacks a logical, consistent and publicly transparent approach to funding schooling.

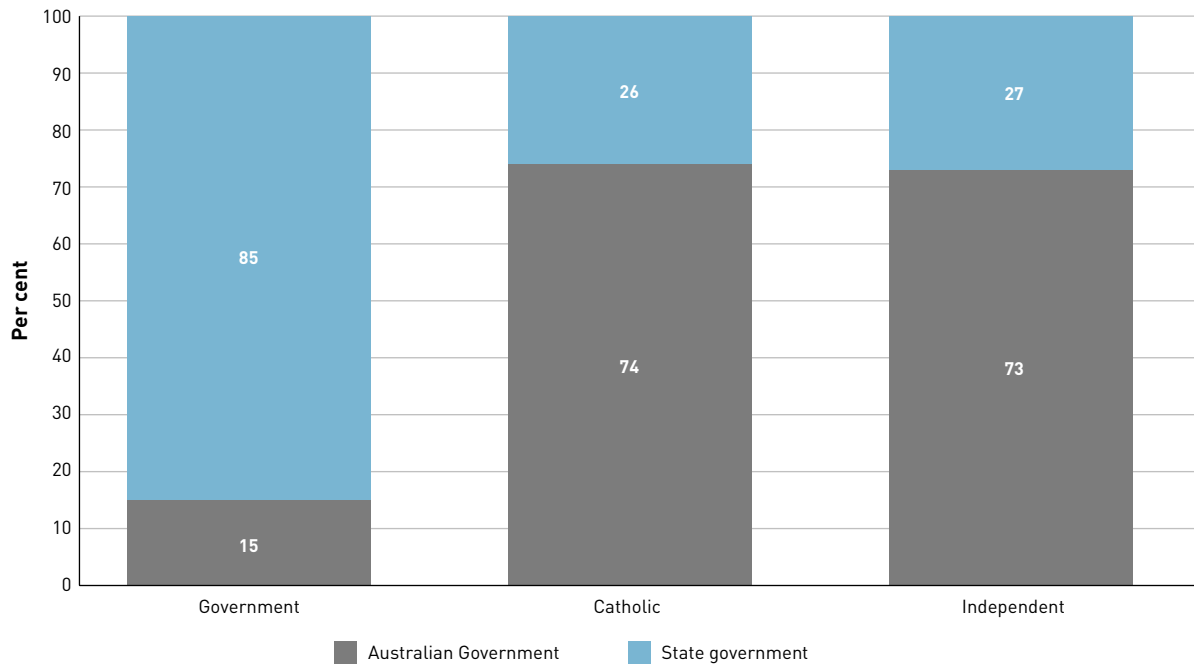
Shared responsibility in funding all sectors of schooling

In 2009, the Australian Government provided 74 per cent of all government net recurrent funding for the Catholic sector and 73 per cent in the independent sector. In the government sector the Australian Government provided only 15 per cent of the net recurrent funding with 85 per cent coming from the states and territories (see Figure 16). State and territory governments carry the largest proportion of the cost of funding government schools, including meeting the needs of a disproportionately larger number of disadvantaged students, than those in the non-government sector (see Figure 17).

The National Partnerships in schooling have gone some way to correct this imbalance. Through the Literacy and Numeracy, Low Socioeconomic Status School Communities, Closing the Gap in the Northern Territory, and More Support for Students with Disabilities National Partnerships, substantial Australian Government funding has been provided to certain schools to support disadvantaged students or students not meeting minimum standards in literacy and numeracy. However, funding has only extended to a set number of government schools.

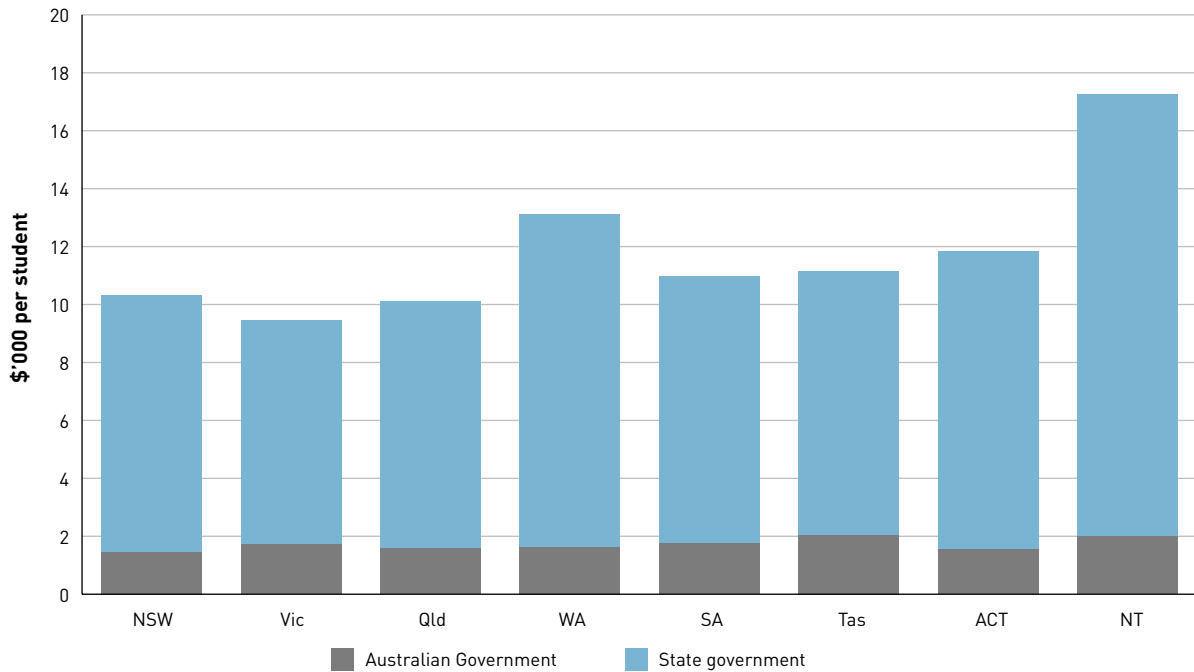
Having focused primarily on supporting government schools, state and territory government support for non-government schools has been uneven, informal and reliant on the commitment of the Australian Government. Figure 18 not only shows that the contribution from state and territory governments to recurrent income in non-government schools is uneven across jurisdictions, but also highlights the imbalance in the Australian Government's role in funding government and non-government schools. It is time to look at how the funding responsibility for schooling can be better balanced between both levels of government.

Figure 16: Australian Government and state government net recurrent funding as a proportion of all government recurrent funding, by sector, 2009



Source: ACARA dataset 2011.

Figure 17: Australian Government and state government contributions to net recurrent income per student in government schools, 2009



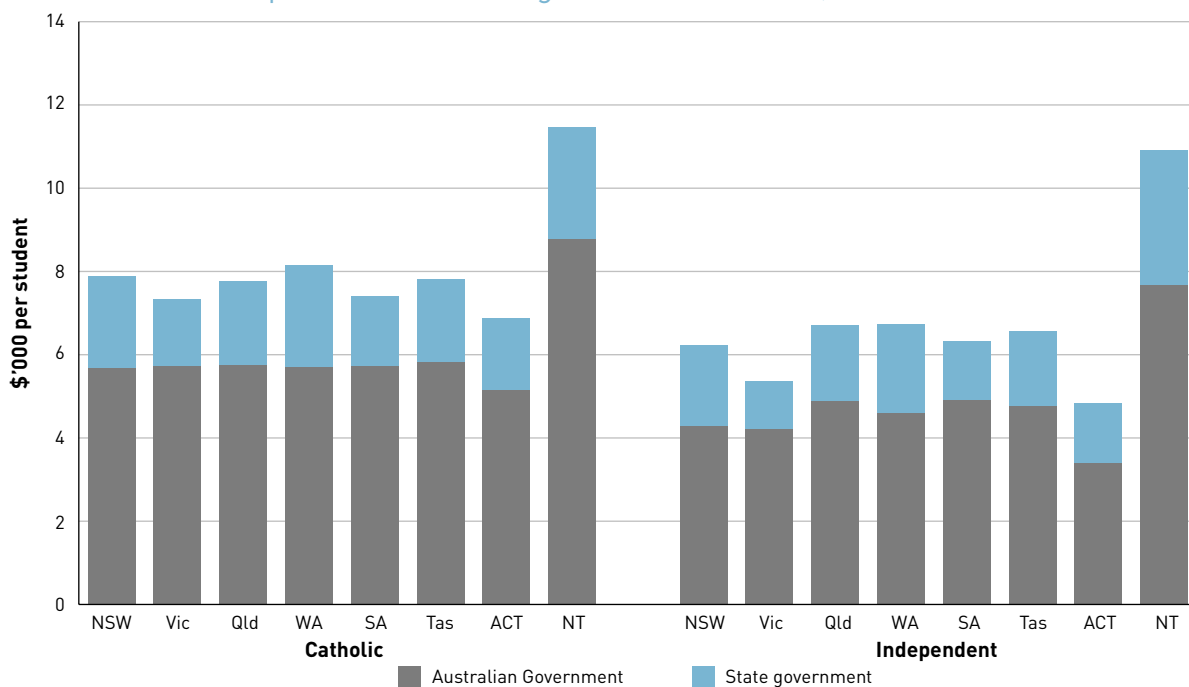
Source: ACARA dataset 2011.

It is clear that the Australian Government could play a greater role in funding government schools. Greater support for government schools is particularly important given the need to lift the outcomes of a greater number of students, the comparatively poor state of government school infrastructure, and the higher concentrations of disadvantaged students in government schools. It also aligns with the responsibility of the Australian Government under the National Education Agreement to support students with particular needs, and the shared responsibility of governments to support improved outcomes of Indigenous students.

While the panel considers there to be scope for the Australian Government to be more involved in the funding of government schools, particularly in supporting disadvantaged students in these schools, it also acknowledges the Australian Government’s funding obligations to the non-government school sector. To maintain this commitment, increases of Australian Government funding to government schools would either come at an additional cost, or a realignment of funding responsibilities, with the states and territories playing a greater role in funding non-government schools.

The panel believes there are clear benefits to the Australian Government being more involved in the funding of government schools and in state and territory governments becoming more involved in funding non-government schools.

Figure 18: Australian Government and state government contributions to net recurrent income per student in non-government schools, 2009



Note: Catholic non-systemic schools included in independent schools.

Source: ACARA dataset 2011.

While the government school sector supports higher numbers of educationally disadvantaged students, the non-government sector also supports a share. Some groups of students, such as students with disability, receive considerably less resources than their counterparts in the government sector. State and territory governments could work to provide greater support for these students. Greater involvement in funding non-government schools by the states and territories would also allow these schools to be better integrated in the state or territory’s accountability and reporting arrangements, facilitating better data collection at both a jurisdictional and a national level.

Finding 7

There is an imbalance in the provision of funding to government and non-government schools by the Australian and state and territory governments. In particular, the Australian Government could play a greater role in supporting state and territory governments to meet the needs of disadvantaged students in both government and non-government schools.

Benefits of systems in allocating funding and collecting data on the impact of funding

The benefits of government and non-government school systems allocating or redistributing funding to where it is most needed based on local knowledge of schools and communities, and in achieving efficiencies through economies of scale, are well established. Larger systems, in particular, appear to be well placed to apply a greater range of measures of need in distributing funding to individual member schools in their funding formulas. They also have greater flexibility to provide additional support to rural and remote schools, newly established schools, smaller schools, schools that may be experiencing financial difficulty and schools with students with disability.

It is recommended that systems continue to play an important role in Australian schooling. The panel also notes the valuable role that Associations of Independent Schools play in supporting independent schools, including in administering some programs to non-systemic schools.

However, efforts must be made to improve the accountability of systems for their resourcing decisions. While non-government systems and Associations of Independent Schools are accountable to governments as they currently take a small percentage of public funding to support their operations, limited information is provided on the methodologies for redistributing funding, or on the effectiveness of programs such as the Australian Government's targeted programs in improving outcomes. The accountability that is provided to the Australian Government by non-government system authorities and Associations of Independent Schools for these programs extends to the provision of a certificate completed by a qualified accountant certifying that the school has spent the funds provided by the Australian Government for the purpose they were granted with respect to the applicable program year. Schools are also required to complete the annual census and financial questionnaire, though these instruments do not collect data on the use or impact of funding in improving student outcomes.

Although there are agreed accountability and reporting structures in place for the states and territories under the Federal Financial Relations Framework, these have been found to be inadequate in terms of obtaining information on the impact of funding on the educational outcomes of students in government schools. The Chair of the COAG Reform Council noted in an address to the NatStats 2010 Conference that 'all COAG Reform Council reports contain recommendations to improve data quality of the area being monitored, and call for refinement of the linkages between the data assessed and the policy objectives sought' (McClintock 2010). Further, the Reform Council found that all National Agreements have examples of performance indicators which have no data or inadequate data to report on progress (COAG Reform Council 2010c).

The OECD (2011c) has also reported that there are varied practices among the states and territories in monitoring the performance of schools, especially in relation to the performance of low socioeconomic status and Indigenous students. Understanding the relationships between the funding that is provided to support these students and its impact on outcomes is critical in ensuring that funding is being used to maximum effect and is informing future investment.

The Office for Standards in Education, Children's Services and Skills (Ofsted) in England (2010) asserts the importance of performance data in acting as an early warning system to address issues, and lists four components to a systemic school improvement strategy:

- setting the standard, which is done through inspection frameworks and local and national targets
- avoiding any school becoming inadequate, which depends on effective monitoring and accountability
- quick turnaround of any school that becomes inadequate
- sustaining good and outstanding practice.

It is important that the same transparency and accountability arrangements apply to both government and non-government systems. This includes greater transparency in how systems distribute and allocate recurrent and capital funding to their member schools, and how funding is allocated to address the needs of disadvantaged students.

Finding 8

In recognising the many benefits of government and non-government school systems, future funding arrangements for schooling should continue to enable systems to make decisions around the redistribution and allocation of resources at the local level, with enhanced accountability.

2.1.7 Conclusion

The partnership that has developed over recent years between the Australian Government and state and territory governments in funding and supporting all schooling sectors provides a strong platform in which to build and implement a new approach to funding schooling.

There is a clear need for funding for schooling to be better coordinated between the funding partners, and to be delivered in a more coherent and transparent way. This could be achieved through jointly agreed funding mechanisms involving common approaches to the allocation of funding to systems and schools. There is also a need to think about a way in which governments can better share the funding of schools across the sectors, as well as a need for greater accountability in how funding is used to support student outcomes, so that the schooling system as a whole can better respond to the changing demands of schooling.

Non-government school systems play an important role in the distribution of funding to schools, and this role should be maintained with enhanced accountability for how the funding is distributed and used.

2.2 Average Government School Recurrent Costs and indexation

AGSRC has played an important role in the Australian Government's funding policy for schooling for some 18 years, particularly over the last decade where it has been used as both a funding benchmark and an index. In 2011–12, around 80 per cent of the Australian Government's school outlays for both government and non-government schools are linked to AGSRC (The Treasury 2011a).

This chapter considers the role of AGSRC in funding for schooling. It sets out how the measure is calculated, as well as some historical context for its development and use. The second part of the chapter identifies and discusses issues about the appropriateness of AGSRC as a benchmark and index. It discusses why the panel believes that AGSRC is no longer an appropriate funding mechanism.

The chapter concludes with a discussion of alternative approaches and recommends a way forward involving the development of a new benchmark in the form of a schooling resource standard, as well as new arrangements for indexing and periodically reviewing it. Chapter 4.2 explains how this new schooling resource standard should be constructed, and Chapter 4.3 discusses the role it could play in new funding arrangements.

2.2.1 Introduction of AGSRC

AGSRC was introduced in 1993, when it operated as an index. When the SES funding model was introduced in 2001, AGSRC became both a funding benchmark and an index. At this time, the AGSRC amounts were determined annually under legislation as the basis for general recurrent funding of non-government schools. All states and territories, with the exception of South Australia and the Australian Capital Territory, also link their funding of non-government schools to their own jurisdiction's average government school expenditure per student in some way (Keating et al. 2011).

Before the establishment of AGSRC, a Community Standard formed the basis for determining Australian Government recurrent funding for government and non-government schools. The standard represented the educational resources expected in the provision of schooling, such as staffing, equipment and books, and also included the resources required to meet the special needs of some students. Funding rates were adjusted annually in line with movements in a Schools Price Index, which measured the movement in the cost of a basket of school-specific goods and services.

Switching to AGSRC was intended to provide a simpler, more realistic benchmark because it was based on actual costs (or expenditure) rather than a 'notional' basket of services as was represented by the Community Standard (Wilkinson et al. 2006). The source data for AGSRC was also viewed as 'independent, reliable and transparent, whereas the composition of the Community Standard was considered to be obscure and manipulable' (DEETYA 1997, p. 49).

As a benchmark, AGSRC sets per student amounts, with separate amounts calculated for primary and secondary school levels. A percentage of these amounts, based on the SES score of a school under the SES funding model for non-government schools, is then used to determine Australian Government recurrent funding for non-government schools (see Chapter 2.3). Payments to the states and territories for government schools under the National Schools SPP are also adjusted for growth in these per student amounts from year to year.

The AGSRC index reflects the annual rate of change in AGSRC (minus some components), and is used specifically for adjusting Australian Government targeted funding for non-government schools.

2.2.2 The calculation of the AGSRC amounts

In setting revised AGSRC amounts each year, the Australian Government Education Minister is required under section 36 of the *Schools Assistance Act 2008* to consider changes in average government school cost figures published by the Ministerial Council for Education, Early Childhood Development and Youth Affairs (MCEECDYA). These data are state based and are collected using an agreed set of definitions to determine what expenditure is in or out of scope.

Guidelines for compiling and reporting data underpinning the AGSRC calculations are updated regularly by MCEECDYA. These guidelines and the collection of data from audited accounts provide some assurance that it is collected and reported consistently by the Australian Government and the states and territories.

Broadly, the scope of recurrent expenditure includes in-school and out-of-school expenses for the provision or administration of government schools as set out in Table 13. The major component is employee-related expenses for teaching and non-teaching staff, which accounts for around three-quarters of recurrent expenses excluding the notional user cost of capital. A number of items are specifically excluded from the collection, notably funds raised by schools and payments to non-government schools. Expenses on shared services are also excluded as are welfare payments to individuals and expenditure on other levels of education, such as preschools and TAFE. Data on investment costs, such as purchases of land and buildings, and plant and equipment, are collected and reported separately to recurrent expenses.

Table 13: Recurrent expense items in the MCEECDYA schools finance data collection

Item	Description
Employee-related expenses	<ul style="list-style-type: none"> All salaries, wages and allowances and on-costs paid to in-scope staff. Salary on-costs including superannuation, payroll tax, long service leave, workers compensation insurance and fringe benefits tax.
Out-of-school expenses	<ul style="list-style-type: none"> Other expense items which do not fit the definition of in-school expenses such as teachers based in a regional office and the costs of regional and central administration. Salaries and allowances and non-salary costs for education establishments other than schools and ancillary education establishments.
Redundancies	<ul style="list-style-type: none"> Payments of accrued leave, other entitlements, superannuation and other special incentives for redundant staff.
Other operating expenses	<ul style="list-style-type: none"> Student transport, cleaning, utilities, repairs and maintenance, minor stores, plant and equipment, rentals and leases and other, e.g. telephone, computer lines, postage, security.
Grants and subsidies	<ul style="list-style-type: none"> Grants and subsidies paid directly to schools for any school education purpose.
Depreciation	<ul style="list-style-type: none"> The estimated expense resulting from the consumption ('wear and tear') of non-current assets with limited useful lives in the process of producing schooling services. States and territories have different methodologies for estimating depreciation.
Notional user cost of capital	<ul style="list-style-type: none"> The opportunity cost of funds tied up in the capital used to deliver government services, i.e. their potential value if employed in another purpose. It is calculated at 8 per cent of the written down value of government school non-current physical assets.

Note: From 2009 onwards the data is being compiled by ACARA.

Source: MCEECDYA 2011, unpublished.

The AGSRC amounts are derived annually by the Department of Education, Employment and Workplace Relations (DEEWR) from these MCEECDYA government school expense figures. They are calculated on a derived cash basis, reflecting the way in which government accounts were prepared at the time that they were first used for calculating AGSRC. However, when state and territory governments moved to accrual accounting from 2000–01, there were some changes in the way certain expenses are treated (see Table 14).

Table 14: Some differences between cash and accrual accounting

Areas of difference	Cash accounting	Accrual accounting
Recognition of transactions	Transactions are recognised only when cash flows into or out of an entity. Consequently, non-cash transactions (such as provisions and revaluations) are excluded.	Records transactions when economic value changes rather than when cash changes hands. Accrual accounting covers some financial items of significant size which are not included in cash-based statistics because they do not have an associated cash flow.
Timing of transactions	Transactions are recorded in the period in which they occurred.	Transactions are recorded in the period in which revenue is earned or expenses incurred, regardless of whether a cash payment is made.
Superannuation	Records the flow of cash into and out of superannuation funds.	Records the accruing superannuation expense whether the liability is funded or unfunded, thus showing the true cost of accruing superannuation liabilities. Factors taken into account when calculating changes in the stock of unfunded superannuation liability include the number of employees, as well as assumptions relating to wages growth, inflation and the expected rate of return on investment.
Depreciation	Records capital expenditure in a given year.	Records capital use (depreciation), defraying the cost of capital investment across the life of the asset.

Source: The Treasury 2000a.

As cash-based expenditure is no longer reported, the AGSRC calculation requires some adjustments to the available accrual-based figures to estimate cash expenditure so that AGSRC amounts can be compiled in a way that is consistent with the methodology that has been followed since their introduction. As depicted in Figure 19, the steps in the calculation of AGSRC amounts in 2011 were:

Step 1: From total government school recurrent expenses (\$32.9 billion in 2009–10), two items are set aside as they were not included in the original collection of data on government school expenses prior to the introduction of accrual accounting. These are the notional user cost of capital (\$4.8 billion) and depreciation (\$1.2 billion).

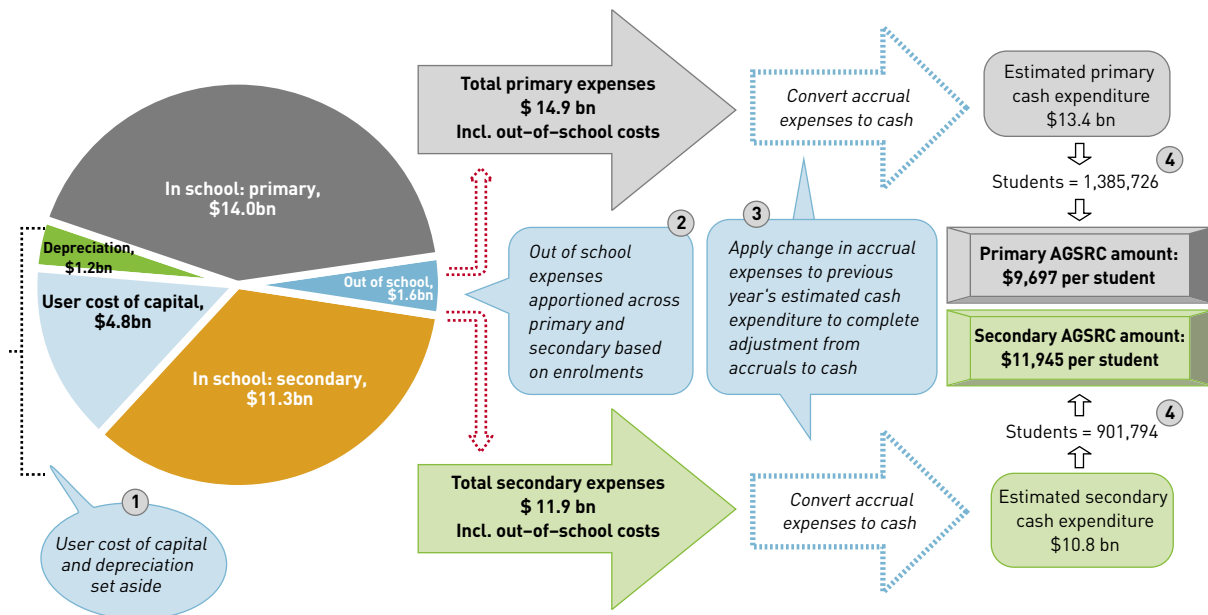
Step 2: Out-of-school expenses (\$1.6 billion) are apportioned across primary and secondary levels of schooling according to enrolments at each level.

Step 3: Cash expenditure for primary and secondary schooling is estimated by applying the year-on-year movement in accrual expenses to the previous year's estimate of cash expenditure.

Step 4: Primary and secondary AGSRC amounts are calculated by dividing estimated cash expenditure for each level by the respective full-time enrolments for the same period.

Figure 19: Derivation of AGSRC amounts 2011

Total government school recurrent expenses 2009–10 (accruals basis): \$32.9 bn



Source: MCEECDYA 2011, National Schools Statistics Collection, unpublished.

Step 3 is necessary to complete the adjustment of the accrual expense data to a notional cash base. As cash expenditure is no longer reported, it has been estimated each year by applying the ratio of accrual expenses in the current and previous years to the previous year's estimate of cash expenditure. These calculations are performed by DEEWR at the state and territory level for primary and secondary schooling separately for each expense type (teacher expenses, administrative staff expenses, redundancies, and other operating expenses). Primary and secondary estimated cash expenditures are then aggregated to the national figures of \$13.4 billion and \$10.8 billion, before being divided by full-time enrolments.

In effect, Step 3 removes from the AGSRC amounts some further cost elements which were not included in the calculations before government school financial data was compiled on an accruals basis. In particular, this affects superannuation, long service leave and payroll tax, all of which were specifically excluded from the cash-based estimates of expenditure (MCEETYA 2001). However, as these have all been included in the accrual expenses used to adjust the original cash base, increases in these expenses since 1999–2000 have been passed on through the AGSRC amounts.

There is a time lag between the financial year for which the data are compiled and the calendar year in which AGSRC amounts are applied to non-government schools. For example, the final 2011 AGSRC amounts were based on 2009–10 data, which became available in mid-2011. Initial 2011 recurrent funding for non-government schools was based on final AGSRC amounts from 2010, with the additional funding reflecting final AGSRC amounts for 2011 paid in October 2011.

2.2.3 The calculation of the AGSRC index

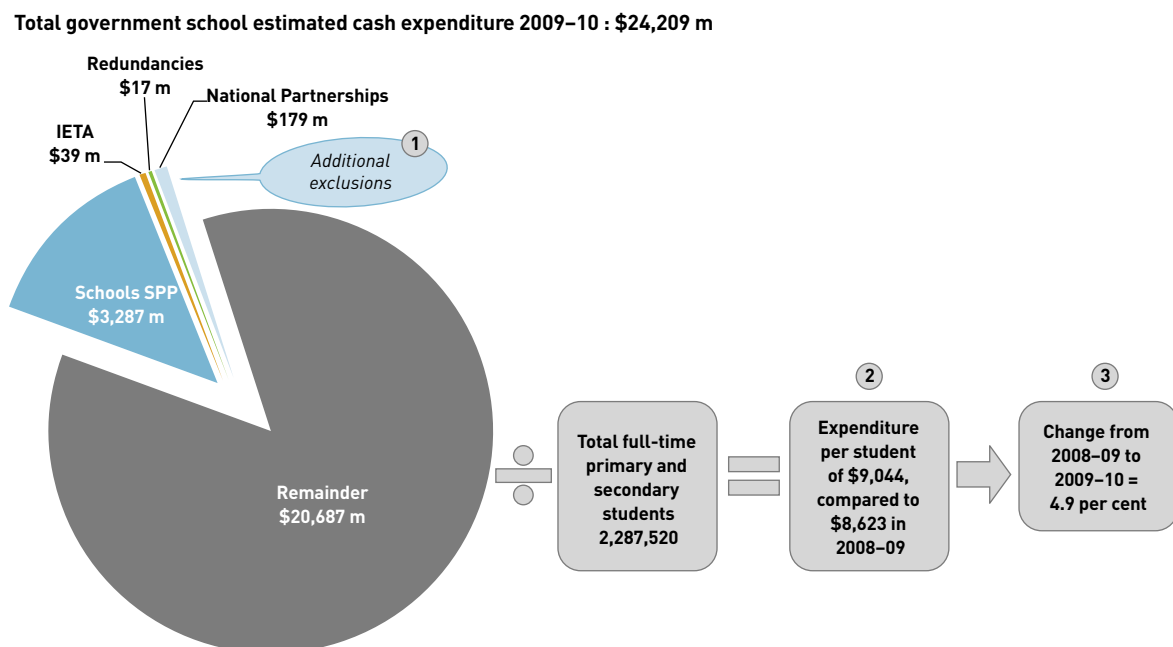
The AGSRC index is also calculated using the same MCEECDYA data, but with some additional steps. As set out in Figure 20, these commence from the second last point of the AGSRC amounts calculation with total estimated cash expenditure of \$24.2 billion in 2009–10. Specific steps involve:

Step 1: The Australian Government grants to government schools, including funding under the National Schools SPP and National Partnerships, and the *Indigenous Education (Targeted Assistance) Act 2000* program are all excluded.

Step 2: The remaining expenditure (\$20 687 million in 2009–10) is divided by total government school enrolments for the same period to arrive at a per capita state or territory government expenditure figure.

Step 3: The AGSRC index is the percentage change in the per capita state or territory government expenditure between two financial years (4.9 per cent in 2011 based on the change from 2008–09 to 2009–10).

Figure 20: Derivation of the AGSRC index 2011



Source: MCEECDYA 2011, *National Schools Statistics Collection*, unpublished.

The effect of excluding Australian Government funding for government schools from the calculation of the AGSRC index makes it a measure of change in total expenditure by state and territory governments only. The rationale for this is to avoid the compounding effect of further supplementing for initial and indexed increases. However, Australian Government funding for government schools is included in the calculation of the AGSRC amounts as their purpose is to identify an average level of expenditure per student, rather than to supplement for changes in those levels. Redundancies are also excluded as they can be affected by one-off events.

2.2.4 Issues with AGSRC

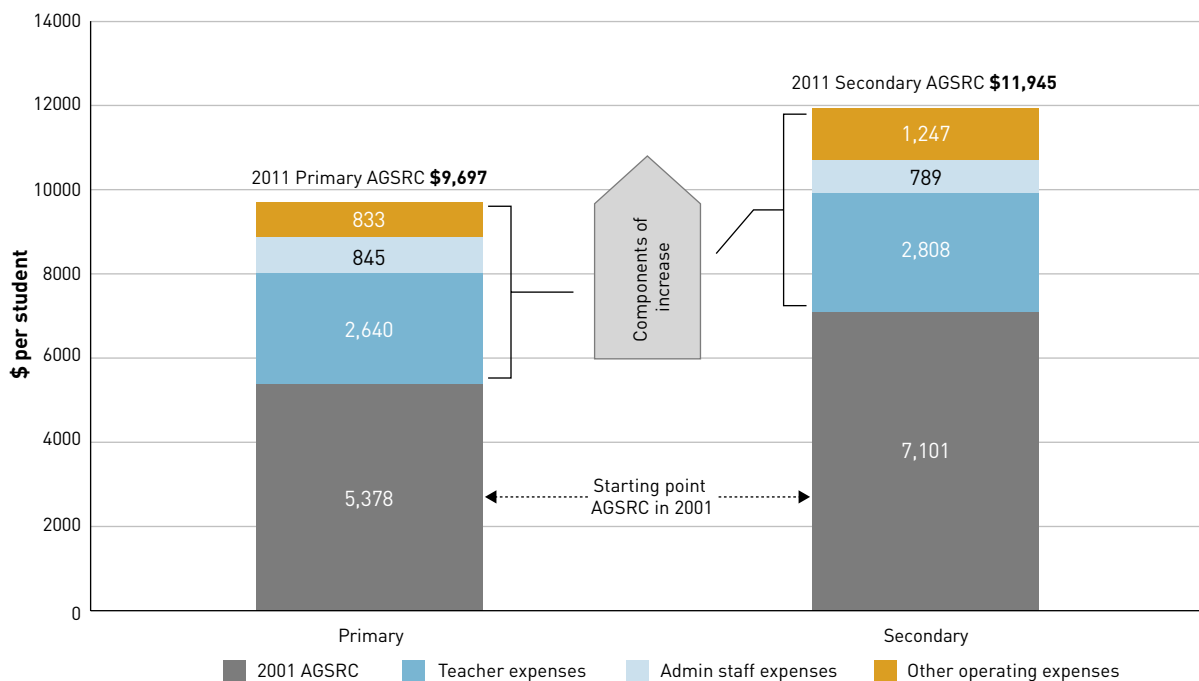
A number of issues relating to the operation and impact of AGSRC arose during the course of the review, including through representations to the review. These focused on the:

- reasons for the growth in AGSRC
- educational rationale for using AGSRC
- equity and parity of the resourcing outcomes AGSRC leads to
- use of AGSRC as both a benchmark and index
- complexity of how AGSRC is calculated and the scope of costs it includes.

Reasons for growth

The growth in the AGSRC per student amounts has been primarily driven by teacher-related expenses, which contributed around 60 per cent of the increase to both the primary and secondary AGSRC amounts between 2001 and 2011 (see Figure 21).

Figure 21: Components of change in AGSRC from 2001 to 2011 by level of schooling



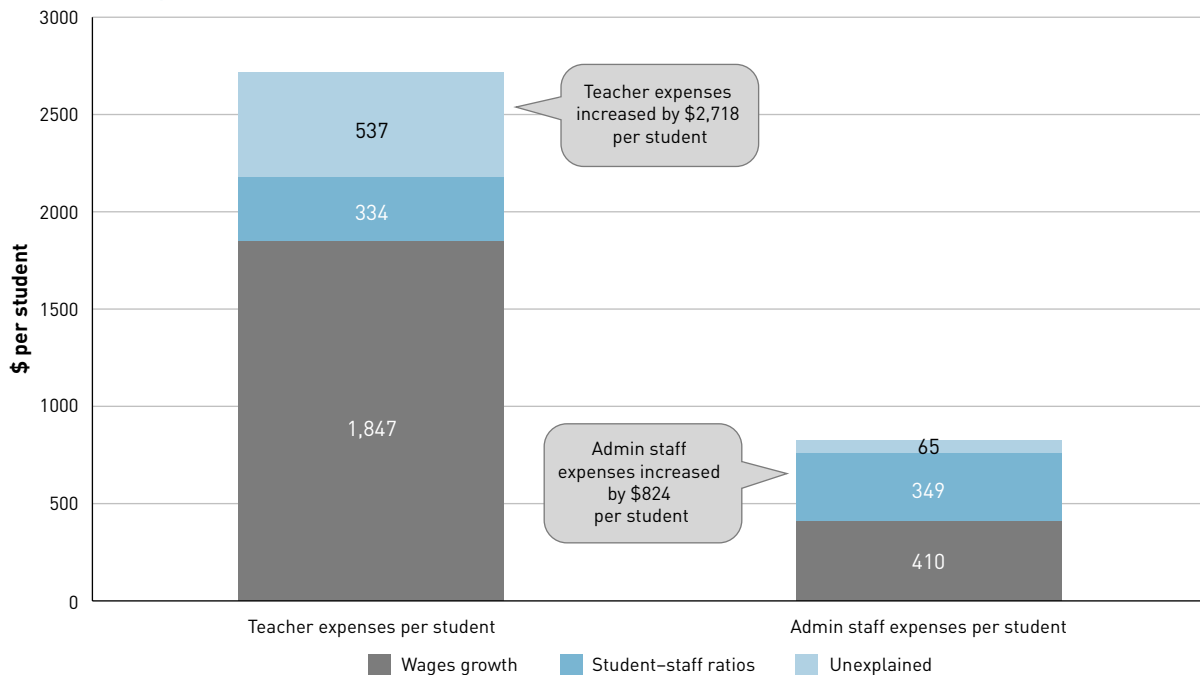
Note: Redundancies are included in other operating expenses.

Source: DEEWR administrative calculations based on MCECDYA 2011, *National Schools Statistics Collection*, unpublished.

Administrative staff expenses contributed a smaller component of the change (20 per cent for primary and 16 per cent for secondary), but grew faster at 111 per cent and 89 per cent respectively. As indicated by their declining share in overall expenditure, other operating expenses contributed least to growth in the AGSRC amounts.

Most of the changes in teacher and administrative staff expenses per student are attributable to wages growth and changes in student and staff ratios (see Figure 22). For this purpose, per student amounts have been combined for primary and secondary schooling as data on changing wage costs are not separately available by level of schooling.

Figure 22: Components of change in teacher and administrative staff expenses per student from 1999–2000 to 2009–10



Note: Redundancies are included in other operating expenses.

Source: DEEWR administrative calculations based on MCEECDYA 2011, *National Schools Statistics Collection*, unpublished.

As shown in Figure 22, wages growth accounted for the largest part of the increase in teacher expenses per student (68 per cent of the increase). The growth reflected the 51 per cent increase in the Labour Price Index for public sector education and training. Twelve per cent of the increase also resulted from a fall in the aggregate student–teacher ratio from 14.9:1 in 1999–2000 to 14.0:1 in 2009–10. However, one-fifth of the increase in teacher expenses per student remains unexplained.

For administrative staff expenses, wages growth again accounted for a significant part of the growth in expenses (50 per cent), but a much larger drop in student to non-teaching staff ratios from 53:1 in 1999–2000 to 38:1 in 2009–10 also accounted for 42 per cent of the increase.

The unexplained components of Figure 22 may be due to a range of factors, including policy decisions by both levels of government. The potential for these to have an impact on AGSRC is demonstrated by the larger than usual increase in the primary AGSRC amounts in 2010 and 2011, which increased by 8.2 per cent and 6.9 per cent respectively. The secondary amount increased by 7 per cent in 2010 and 4.9 per cent in 2011. This was in part due to the flow-on effects of the funding arrangements under the National Schools SPP, where the per student primary amount increased to 10 per cent of AGSRC. Other factors include extra funding to the state and territory governments for the Digital Education Revolution National Partnership payments and on-costs.

Educational rationale

In essence, AGSRC is a measure of historical expenditure levels in average government schools. As such, it is a backward-looking approach to resourcing schools, based on past levels of inputs from governments. It lacks an explicit educational rationale related to the Australian community’s current expectations of and needs from schooling, as articulated in the Melbourne Declaration. It does not help to guide decisions about the overall level of investment required by the community and governments at all levels to meet those expectations, nor provide assurance that our significant investment is effective and efficient.

Consequently, AGSRC provides little leverage in addressing the significant educational challenges Australia faces, as set out in Chapter 1.2. Retaining a funding mechanism like AGSRC as the centrepiece of funding for schooling will not assist Australia in meeting these challenges.

In the panel's view, seriously addressing Australia's schooling challenges will require an intense and sustained national effort over an extended period of years. Public funding is one of the key levers that can be used to focus this effort on achieving the desired high-level outcomes for schooling related to improved performance and equity. In particular, a forward-looking benchmark is needed with an explicit link to the cost of providing students with the opportunity to achieve nationally agreed outcomes, as determined by governments from time to time.

It is also critical that a new benchmark is dynamic and responsive to changes over time in performance and the delivery of schooling. The arrangements, including a new benchmark, should be reviewed regularly to ensure that they are based on sound evidence and data so that the link is maintained between desired educational outcomes and funding. The institutional structures necessary to support this are described in Chapter 4.4.

Finding 9

The Average Government School Recurrent Costs measure lacks a convincing educational rationale. Meeting Australia's educational challenges requires a funding benchmark that is linked to educational outcomes and is able to respond to changes over time in performance and the delivery of schooling.

Resource equity and parity

While AGSRC is based on average expenditure in government schools, there are schools with vastly different characteristics and student cohorts across all schooling sectors and states and territories. As Chapter 3.2 outlines, these differences are due to factors such as school location or size, or types of disadvantage faced by the students. An average measure like AGSRC does not reflect the cost of meeting the different needs of schools, systems or jurisdictions.

In representations to the review, divergent views were expressed about the ability of AGSRC to allocate funding based on need (equity), and the balance of total investment across the government and non-government sectors (parity).

Many organisations associated with the government sector argued that average government school costs are inflated by the higher proportion of students from low socioeconomic backgrounds, Indigenous students, students with disability and remote area students, and that non-government schools receive a portion of this higher expenditure while having a lower ratio of such students. AGSRC was also said to be affected by the diseconomies experienced by state and territory systems in meeting their legal obligations to cater for all students when a significant proportion of government schools have become smaller and less efficient as a result of enrolment shifts across regions and schooling sectors.

On the other hand, organisations representing the non-government sector argued strongly that AGSRC was a necessary and appropriate mechanism. They argued that the number of students requiring additional support in non-government schools is increasing, and further, that the indexation applies only to income from the Australian Government targeted programs, which is a small portion of the total income of most non-government schools. It was also argued that quality and resourcing levels in government schools are cost drivers for non-government schools and that they needed to be able to respond to changing community expectations of standards and quality of schooling. Joint labour markets and common wage pressures for teachers across sectors were cited as constraints on using cost measures that are unrelated to changes in government school costs.

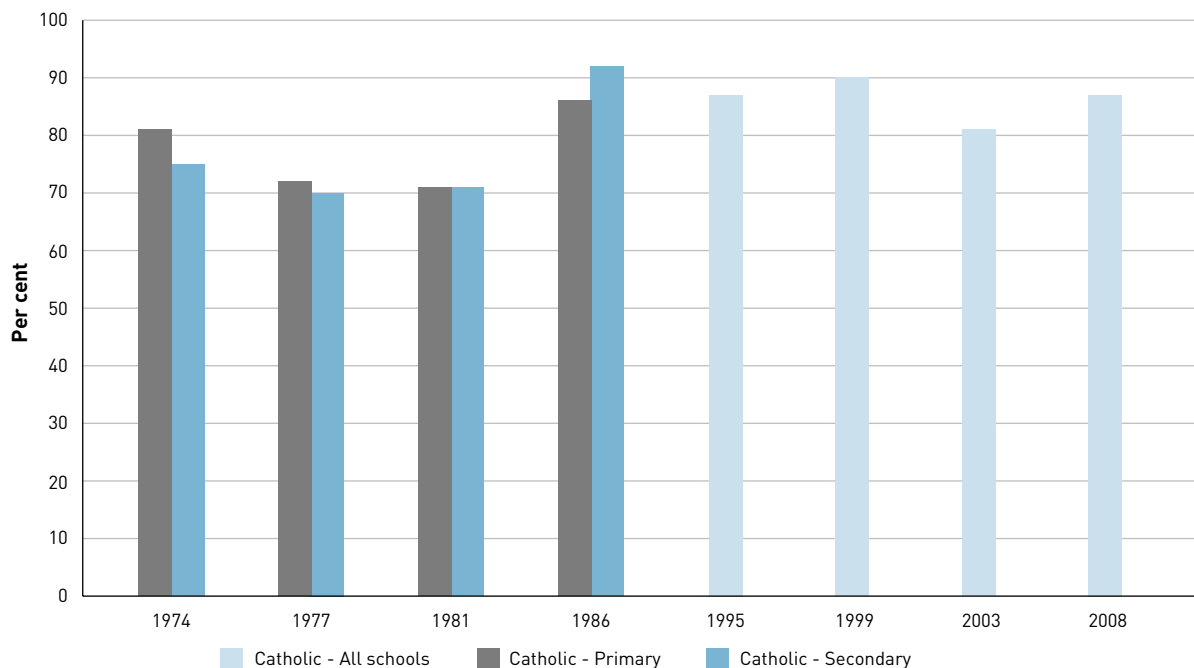
The panel noted that both lines of argument had merit. The data on student profiles in the schooling sectors set out in Chapter 1.1 show that the greater proportion of students facing disadvantage attend government schools. However, the non-government sector also educates a share of disadvantaged students, including students from remote or very disadvantaged communities, and consequently experiences significant resource and other challenges.

The panel concluded that a sectoral focus in considering equity would be unproductive. Rather, as far as practicable, resourcing arrangements should reflect the nature of the educational challenges faced by a system or a school given its characteristics and student population, regardless of whether it is in the government or non-government sector.

As it represents an average level of resources, AGSRC is unable to satisfy this principle. What is needed is a more sophisticated resource benchmark that can reflect the full spectrum of cost levels from the lesser cost associated with a school experiencing minimal disadvantage (for example, a large school in a metropolitan area with minimal levels of educational disadvantage due to student background) through to a school with compounded or concentrated disadvantage or costs (for example, a small school in a very remote location with high levels of students from disadvantaged backgrounds).

In reaching this conclusion the panel acknowledged that the issue of parity across sectors, in particular between the government and Catholic sectors, is important and has had a long history. Before AGSRC was introduced, Australian Government funding for schooling was based on other measures of government school costs. These measures sought to address concerns at the time about large resource gaps across the schooling sectors, as highlighted in the Karmel Report (Wilkinson et al. 2006). As illustrated in Figure 23, the gap between average Catholic and government school expenditure from all sources per student has decreased over time.

Figure 23: Recurrent expenditure per student in Catholic schools as a percentage of government schools, selected years from 1974 to 2008



Sources: 1. Expenditure for 1974, 1977 and 1981—Quality of Education Review Committee 1985, Tables 2.2, 2.3 and 3.11.
 2. Expenditure for 1986—DEET 1987, Table 4.8; and DEET 1989, Table 4.5.
 3. Expenditure for 1995, 1999, 2003 and 2008—MCEETYA (various years), *National report on schooling in Australia*, statistical appendix, table numbers differ between reports.

The panel believes that systems and schools should be resourced on an equal per student basis if they have the same characteristics or serve student populations with similar levels of need. A per student amount should remain the major component of a new resource benchmark and this should provide a strong common level of resourcing for all schools. The benchmark should be topped up by a significant element of resourcing based on need, which would give parents and the community the assurance that students and schools are resourced appropriately regardless of sector.

Finding 10

Public funding arrangements need to reflect the nature of the educational challenges faced by a system or school given its characteristics and student population, regardless of whether it is in the government or non-government sector.

Benchmark and index

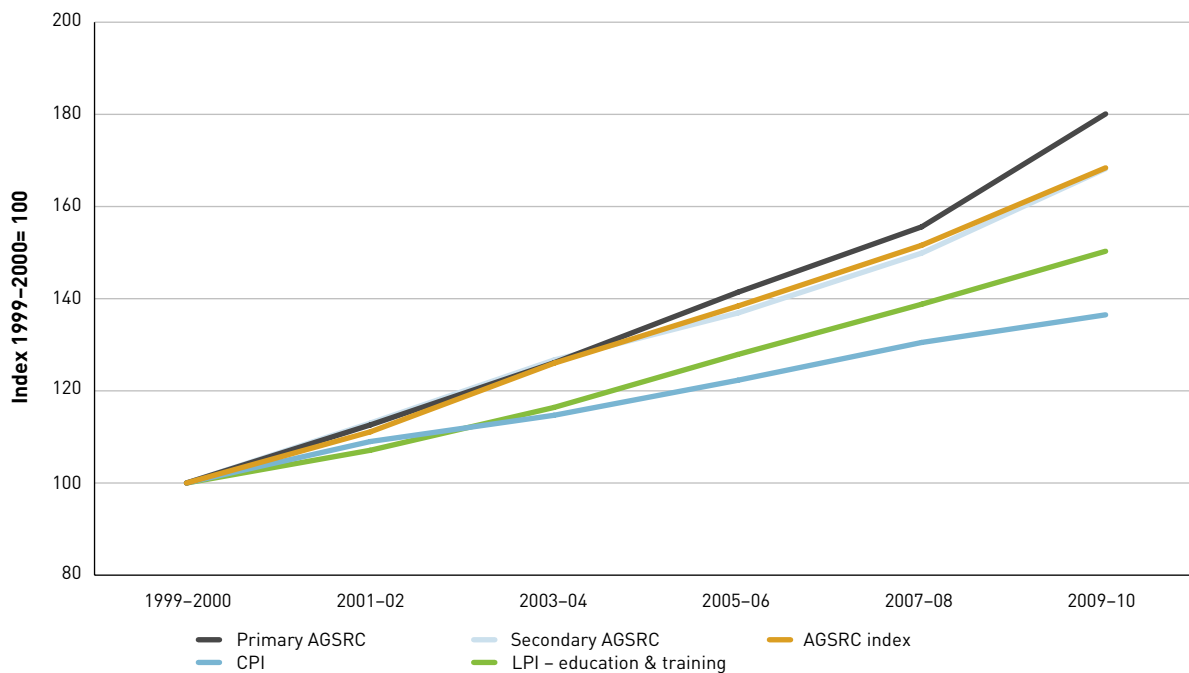
At present AGSRC operates as both a funding benchmark and an index. As a benchmark, it acts primarily to maintain a level of resource parity over time between Australian Government funding of all schooling sectors. As an index, it reflects increases in both the cost and quality of educational resources.

A range of views about this dual purpose of AGSRC were expressed in the review's consultations. Supporters of the continued use of AGSRC argued that it was essential to have both a benchmark and an index that could maintain a degree of parity over the long term between resourcing for government and non-government schools. They also argued that it was essential for these to include both price and quality components, as salaries and conditions in government schools are significant cost drivers for non-government schools, which draw teachers and other staff from a common labour market.

Others maintained that AGSRC overcompensates schools and passes on real increases over and above the effects of inflation without regard to the specific needs of the schools receiving those increases. Pointing to comparisons with measures of inflation that are not school specific led to some questioning whether AGSRC mirrors efficient growth in costs. As shown in Figure 24, between 2001 and 2011 (based on 1999–2000 and 2009–10 financial year data respectively) the primary and secondary AGSRC amounts increased by 80 per cent and 68 per cent. This was well ahead of the Consumer Price Index (up 37 per cent) and the Labour Price Index for education and training (up 50 per cent).

However, such comparisons are not valid as AGSRC is not just a measure of cost or price increases, but a benchmark as well. As such it incorporates changes in the level of spending per student that flow from improvements in the quality as well as those which flow from higher prices for inputs. It is not unusual for cost increases in labour-intensive service industries such as schooling to outstrip the rate of inflation in the economy as a whole (Valadkhani, Worthington and Layton 2005), particularly in sectors that are heavily government funded and regulated.

Figure 24: Cumulative change in AGSRC compared to Consumer Price Index and Labour Price Index, 1999–2000 to 2009–10



Note: The LPI – education and training relates to hourly rates of pay (excluding bonuses) for the public sector drawn from ABS (various years), Labour Price Index, 6345.0 (Table 5a).

Sources: DEEWR administrative data 2011; ABS 1999 to 2010a, *Consumer Price Index, Australia*, cat. no. 6401.0; ABS 1999 to 2010b, *Labour Price Index, Australia*, cat. no. 6345.0.

This illustrates one of the potential advantages in terms of greater clarity and transparency of purpose in separating the setting of a benchmark from how it is indexed over time. The combination of these two roles in AGSRC contributes to confusion and misunderstanding about how school funding is determined and whether this is effective and efficient.

The issues related to setting a benchmark and indexing it can also be different more generally. The key issues in setting a benchmark relate to:

- the purpose of the benchmark, whether it is to drive resource inputs only or also educational outcomes
- its structure, and its ability to differentiate by need
- the scope of costs it should cover
- the underlying assumptions about school effectiveness in deploying resources to educational ends
- the data and methodology required to determine the benchmark.

In the panel's view it is clear that a benchmark, particularly one geared towards improving educational performance, should include resourcing increases over time to reflect broad increases in 'quality' in the sense of raising educational aspirations and reflecting changes in modes of delivery through classrooms and the use of ICT. This would occur as a result of regular, evidence-based review of the benchmark, allowing the currency and appropriateness of it to be tested against robust cost and performance data. By its nature, such a process is intensive in terms of resources, data, and time and cannot occur every year.

Annual indexation of a benchmark ensures that it remains current between such periodic reviews despite changes in actual or forecast prices or costs. The key issues in determining an appropriate index to adjust a benchmark include:

- the availability of a suitable index or set of cost data which reflects efficient but realistic changes in costs over time
- the timeliness and robustness of this index, as well as the simplicity of its application
- certainty for schools and governments about the likely funding implications in the medium term.

Within a framework that has a coherent approach to setting a funding benchmark and a legislated requirement for regular, independent review of that benchmark, there is a case for a separate and simpler approach to indexation focused on maintaining the real value of that benchmark between reviews. The panel's recommendations set out in this report would lead to a significant increase in overall funding for schooling in all sectors. Therefore, separating the benchmark from indexation would not lead to reduced funding. Rather, it would provide a more transparent, robust and credible benchmark with a stronger educational rationale and objective.

Finding 11

Within the new funding framework there needs to be an explicit difference between setting a standard for the resourcing of schooling and indexation for changes in the costs related to the delivery of that standard.

Complexity and scope

It is clear that the calculation of AGSRC and the index are complex and not easily understood. This has been accentuated by the technical nature of some of the accounting concepts, the shift from cash to accrual accounting and the practical adjustments necessary to reflect what it is feasible to collect and measure annually from time to time. The picture is also complicated by different measures of government school expenditure due to different inclusions and exclusions in figures published by MCEECDYA in its *National report on schooling in Australia* and the Productivity Commission in its *Report on government services*. The rationale for the treatment of different types of costs has also not been transparent and does not accord with contemporary practice.

In particular, there are a number of significant ongoing costs in operating schools which are currently not included in AGSRC for various reasons, but which should be included in a measure which is intended to guide the allocation of public resources across government and non-government schools. Superannuation and long service leave are two examples of such costs. These came to be excluded from the original cash-based AGSRC amounts because, at the time, unfunded superannuation liabilities were not properly accounted for under cash accounting rules in the government sector. There were also inconsistencies between the states and territories in their treatment of superannuation costs and robust data was lacking (Coopers and Lybrand 1994). However, with the shift to accrual accounting better information is now available on government school superannuation and this is included in the financial data collected by ACARA for the *My School* website.

More complex issues arise in connection with capital-related costs such as depreciation of plant and equipment, and infrastructure and the user cost of capital. AGSRC excludes both these, as well as the initial capital investment costs of purchasing or acquiring assets.

Depreciation was excluded from AGSRC because it was not a cash payment but an accrual expense and also because AGSRC excluded capital costs since these were funded separately to recurrent funding (Coopers and Lybrand 1994). Limitations on the valuation of assets made by states and

differences in depreciation methods also made it difficult to include this in practice. However, AGSRC does include repairs and maintenance for existing buildings and equipment.

The notional user cost of capital was excluded from AGSRC because it was a capital-related charge and a notional cost only that had no parallel in the non-government sector. A methodology to estimate it was not agreed and reported in state government expenses until 2001–02, after the calculation of the AGSRC amounts had commenced.

Ongoing issues in the treatment of these costs arise for several reasons. Firstly, it can be difficult to distinguish capital from recurrent costs in some cases and there is a need to avoid creating perverse incentives, such as between purchase and lease of assets, and to recognise that capital costs are 'lumpy' by nature over time and among schools. Secondly, there continue to be different accounting practices across schools and sectors. Depreciation and the user cost of capital were specifically excluded from the ACARA financial data collection for the *My School* website for these reasons.

As outlined in Chapter 4.3, the panel proposes that funding arrangements be retained for supporting capital expenditure in government and non-government schools separate to recurrent funding, covering both depreciation and refurbishment of the existing stock as well as construction of new schools and places. Therefore, it would be appropriate to continue to exclude depreciation, the user cost of capital and capital expenditure on new schools from a recurrent funding benchmark or standard.

Payroll tax was excluded from AGSRC on the basis that, for government schools, it is a state and territory revenue-raising charge and not an underlying cost (Coopers and Lybrand 1994).

Non-government schools are exempt from payroll tax and it has been excluded from the *My School* financial data. Given this, it should continue to be excluded from any measure which is intended to guide the allocation of Australian Government recurrent funding.

Finding 12

For the purposes of developing future recurrent funding arrangements, it would be appropriate to continue to exclude the user cost of capital, depreciation, capital expenditure and payroll tax. Superannuation and long service leave expenses should be included.

2.2.5 Possible alternatives to the current AGSRC

Submissions to the review expressed a wide variety of views as to whether AGSRC should be retained, modified or replaced in future funding arrangements.

Support for retaining AGSRC, while recognising some of its limitations, was expressed by a number of non-government sector representative groups, which argued that it is the most appropriate measure currently available for adjusting funding to reflect increasing costs in schooling. Other submissions also supported continued indexation by AGSRC or movements in educational costs rather than an unrelated general index of price increases, or expressed a desire for certainty of funding. Some submissions supported modifying AGSRC in various ways to redefine it and address the anomalies discussed in this chapter.

There was also support in some submissions for replacing AGSRC with a national education resource standard based on inputs for government school expenditure. It was suggested that this might reflect state and territory cost differences and school-level factors (for example, primary and secondary) and could be net of expenditure on some groups of students with particularly high support costs, such as some students with disability.

Other submissions sought replacement of AGSRC with a benchmark based on the investment it will take for students to achieve the outcomes of the Melbourne Declaration and building in some differentiation for need through a base amount plus other adjustments for disadvantage or higher costs for some students and schools. Another approach suggested was a national target teaching resource standard with indexation based on either an education wage index or a teachers' salaries index.

The panel considered two broad approaches in its deliberations:

- a **modified AGSRC**, which would include some costs which are currently excluded and also the removal of costs associated with students with disability, which would then be funded separately
- a **new schooling resource standard**, which would be set having regard to the outcomes to be achieved rather than current expenditure levels, and which would incorporate adjustments for a wider range of students and schools in need.

The panel considered these approaches having regard to its terms of reference to examine the best funding mechanism to ensure that all students have access to a high standard of education. The funding mechanism will need to deliver financial efficiency and sustainability, as well as the funding principles set out in Chapter 4.1.

Modified AGSRC

The panel concluded that AGSRC could be modified or improved in two ways if retained as a combined benchmark and index.

The first would be to adjust the scope of the expenses which it includes and excludes to address some of the historical anomalies which have arisen in its derivation since 1993 and which are no longer appropriate. This would mean including superannuation and long service leave expenses, but continuing to exclude depreciation and the user cost of capital. Payroll tax should also be excluded as non-government schools are exempt from paying the tax, and it is an internal state transfer for government schools. These changes would turn AGSRC from an anachronistic cash-based benchmark to one which is much closer to a contemporary, accrual-based benchmark, as well as simplifying the calculations and making them more transparent and easily understood.

The second modification would be to remove from AGSRC and fund separately the costs associated with students with disability. Research commissioned for the review by the Australian Council for Educational Research estimated that total identifiable expenditure on students with disabilities in schools in 2007–08 was of the order of \$2.8 billion, of which most is expended in the government sector (Rorris et al. 2011). However, there were a number of omissions and uncertainties around this estimate and further work would be required to develop a more precise estimate. Excluding these funds from AGSRC would address an issue about the inclusion of the highest cost students affecting the average base funding. Funding these students separately would also allow funds to be targeted more directly to schools with larger numbers of students with disability needing higher levels of support.

However, such a modified AGSRC would still not meet some of the key principles for an effective arrangement for funding contemporary Australian schooling. In particular, it would not:

- focus public funding and the energies of the schooling system on outcomes to reverse the slippage in performance against neighbouring and other countries
- address resourcing equity sufficiently so that all schools are resourced appropriately given their characteristics and student population, regardless of sector
- be transparent, clear and subject to regular and independent review to ensure that it is based on sound evidence and data.

New schooling resource standard

The panel concluded that a better way to proceed would be to replace AGSRC with a new set of arrangements, involving a separate benchmark and index. The new benchmark will take the form of a schooling resource standard, with the following characteristics:

- The standard would be explicitly linked to expected educational outcomes, rather than historical levels of resource inputs, and geared to providing all students with the opportunity to meet agreed national educational outcomes. The standard would be structured to reflect the complexity and variations in cost of service delivery within systems and individual schools with differing needs and characteristics in a way that is not possible with an average measure like AGSRC. This would be achieved by including a primary and secondary per student level of resourcing with loadings for students and schools facing certain additional costs due to educational disadvantage arising from, for example, low socioeconomic background or Indigeneity, or the remoteness or limited size of a school.
- Recognising that resources from all sources (government and non-government) contribute towards educational outcomes, the schooling resource standard would be based on the total resources deployed to achieve agreed educational outcomes. The standard would also reflect the efficient costs of all schools meeting agreed national performance benchmarks, not just those in the government sector.
- The schooling resource standard would be subject to regular, independent and expert periodic review, with indexation between reviews based on changes in the cost of a schooling-specific basket of labour and other costs. An institutional and legislative framework would ensure that these processes operated in a transparent and rigorous manner that enables the standard to adapt to changes in educational standards and aspirations over time.

This would be a more equitable, coherent and transparent means of distributing resources between schools or school systems across all sectors taking into account the level and complexity of service delivery and the efficient costs of educationally effective schools in all sectors. The panel's model for a new schooling resource standard is set out in greater detail in Chapter 4.2, with governance arrangements detailed in Chapter 4.4.

Recommendation 1

The Australian Government and the states and territories, in consultation with the non-government sector, should develop and implement a schooling resource standard as the basis for general recurrent funding of government and non-government schools. The schooling resource standard should:

- reflect the agreed outcomes and goals of schooling and enable them to be achieved and improved over time
- be transparent, defensible and equitable and be capable of application across all sectors and systems
- include amounts per primary and secondary student, with adjustments for students and schools facing certain additional costs
- complement and help drive broader schooling reform to improve Australia's overall performance and reduce inequity of outcomes.

2.2.6 Conclusion

The panel has concluded that as a funding benchmark and index, AGSRC does not meet some key funding principles required for funding Australian schooling into the future. A funding benchmark and the method for updating it are a critical part of the architecture of the proposed new school funding arrangements. They must be considered against public policy principles appropriate to the historical and current situation of Australian schooling, including Australia's key challenges of improving performance at all levels of achievement and improving the equity of that performance. The panel considers a schooling resource standard is the most appropriate benchmark to meet these principles.

Australia is well positioned to make the shift to a new way of resourcing schools, but the process for developing a standard ready for implementation in 2014 will require concerted effort, collaboration and consultation with jurisdictions, sectors and schools.

2.3 Socioeconomic Status funding model

This chapter examines the Australian Government's SES funding model for non-government schools. It builds on the discussion of Australian Government and state and territory responsibilities for funding non-government schools in Chapter 2.1, and describes how the SES funding model works, including Funding Maintenance and Funding Guarantee arrangements.

The second part of the chapter examines a number of issues about the SES funding model, including the concept of need that should apply to public funding for non-government schools and the appropriateness of socioeconomic status as a measure of a school's relative need for public funding. The degree to which exceptions to standard funding levels are made through Funding Maintenance is discussed, as well as the rationale for a minimum public contribution towards the funding of all non-government schools. Chapter 4.3 builds on this discussion and explains how non-government schools would be funded under the panel's new funding model.

2.3.1 How the SES model works

The largest component of Australian Government funding for non-government schools is provided through recurrent grants, calculated under the SES funding model. In 2011–12, the Recurrent Grants Program represented some 86 per cent of all Australian Government funding for non-government schools. The level of recurrent grants allocated for a school is determined by:

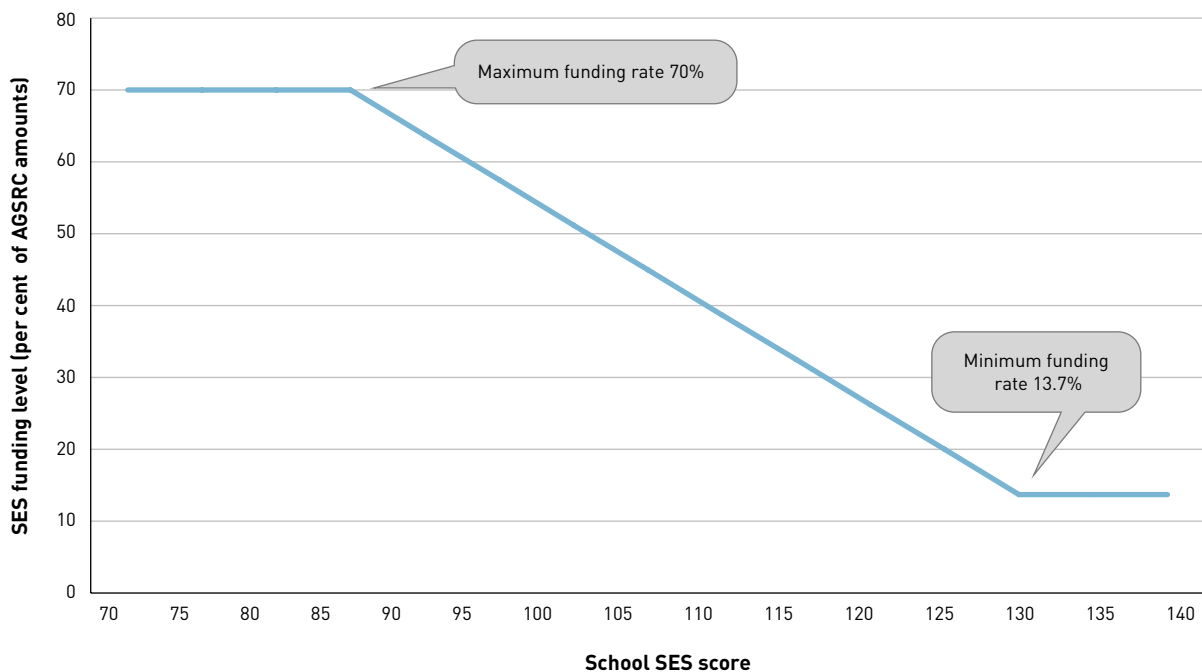
- the number of enrolments at primary and secondary levels
- the AGSRC primary and secondary amounts as updated from year to year (see Chapter 2.2)
- the funding rate of the school based on its SES score, which is derived from the average socioeconomic characteristics of the census Collection Districts in which its students live.

The SES funding model came into operation in 2001 and replaced the Education Resources Index (ERI) as the method for working out the relative funding needs of non-government schools. Under the ERI, the level of funding which a school could receive was determined by the actual resources available to it.

Funding rates

The Australian Government provides recurrent grants on a per student basis over a sliding scale of 46 categories, with each step linked to a school's SES score (see Figure 25). Funding rates range from 70 per cent of primary and secondary AGSRC amounts for schools with an SES score of 85 and below to 13.7 per cent for schools whose SES score is 130 and above. Schools with SES scores between 85 and 130 are funded on a continuum as illustrated. The minimum entitlement of 13.7 per cent of AGSRC was set to be equivalent to the minimum rate for category 1 schools under the previous ERI model.

Figure 25: Funding levels under the SES model



A non-government school may receive maximum SES funding without regard to an SES score if it is a:

- special school
- special assistance school
- majority Indigenous student school (schools with 80 per cent or more Indigenous enrolments or very remote schools with 50 per cent or more Indigenous enrolments).

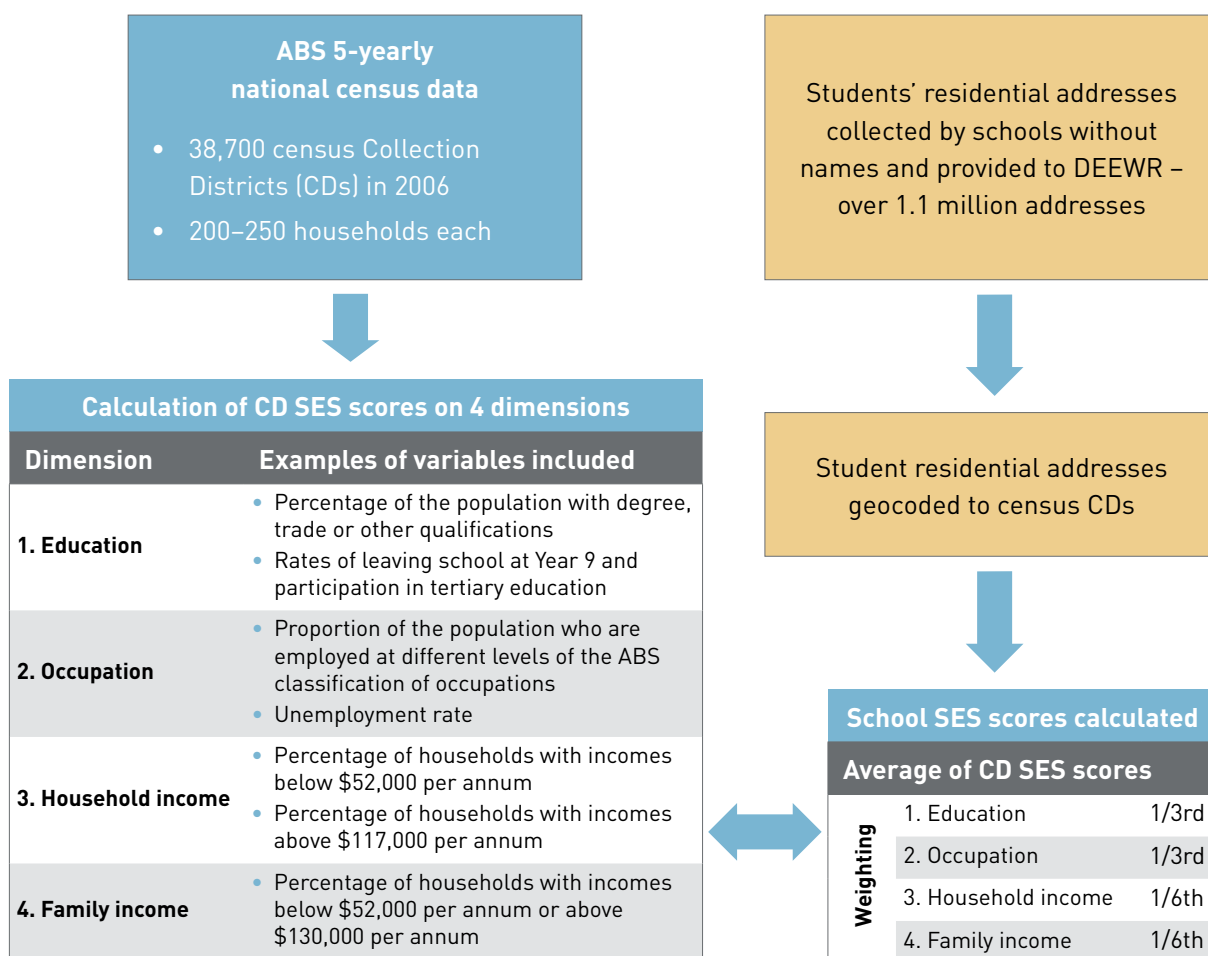
Eligible non-government schools receive a remoteness loading in addition to their recurrent grant funding for students studying at eligible locations. Non-government schools or campuses classified as 'moderately accessible', 'remote', or 'very remote' receive an additional 5 per cent, 10 per cent or 20 per cent respectively of the funding entitlement associated with their SES score.

Assessment of need

The SES funding model links student residential addresses to ABS national census data at the Collection District level to obtain a socioeconomic profile of the school community and measure its capacity to support the school. There were around 38 700 ABS census Collection Districts at the time of the 2006 census. The Collection District is currently the smallest spatial unit in the Australian Standard Geographical Classification. In urban areas, Collection Districts average about 220 dwellings. In rural areas, the number of dwellings reduces as population densities decrease.

An SES dimension score is calculated for four dimensions of each Collection District—occupation, education, household income, and family income for those households with dependent children (see Figure 26). These dimensions were selected to reflect the intention of the SES mechanism to measure the capacity of the school community to support its school. This process means that schools funded on their SES score and which draw students from areas of predominantly high socioeconomic status receive lower levels of funding than schools which draw students from areas of average or low socioeconomic status.

Figure 26: Calculation of school SES scores



DEEWR collects de-identified student addresses from each school, which are geocoded to Collection Districts. School SES scores are then derived from the average score for each of the four dimensions for the students attending the school, weighted as shown in Figure 26. The original school SES scores were calculated for the 2001 to 2004 funding quadrennium, based on 1996 census data. The current school SES scores are based on 2006 census data. The next update for 2011 census data, to be undertaken by DEEWR, will occur ahead of the commencement of the next funding period in 2014.

The SES score of a school applies for the quadrennium, unless the school or school system considers that the SES score has not been determined correctly, does not reflect the socioeconomic circumstances of the school's community, or is no longer accurate because of a significant change in the school's circumstances. In these cases, there are review and appeals processes in place.

Funding Maintenance and Funding Guarantee

In 2011, 60 per cent of non-government schools were funded according to their SES score. The remaining schools were either Funding Maintained or Funding Guaranteed.

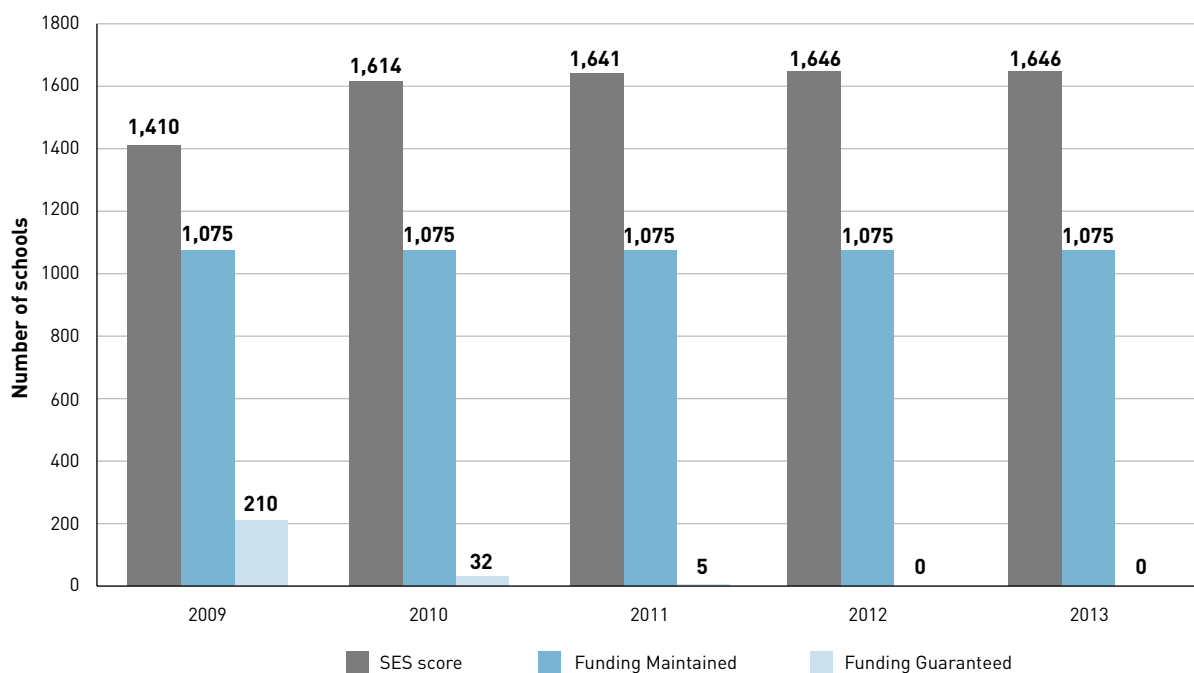
When the SES funding model commenced in 2001, it applied only to independent schools. At this time, Catholic systemic schools continued to be funded under the previous ERI arrangements at a system funding level. Those independent schools which would have received less funding under the

SES model became 'Funding Maintained', in that they retained their 2000 per student level of funding, indexed each year by AGSRC, until their SES score was recalculated for the following quadrennium. These schools moved to being funded on their SES score only if the new score resulted in increased overall funding for the school.

When Catholic systemic schools joined the SES funding system from 2005 the proportion of schools that were Funding Maintained increased. In 2011, there were 890 Funding Maintained Catholic systemic schools (54 per cent of all Catholic systemic schools), 148 Funding Maintained independent schools (14 per cent of all independent schools) and 37 Funding Maintained non-systemically funded Catholic schools (62 per cent of all non-systemically funded Catholic schools). As Funding Maintained schools have their previous funding level fully indexed to changes in AGSRC, they are not expected to decline significantly in number over time (see Figure 27).

Any new independent school (from 2001) or Catholic systemic school (from 2005) is funded on their SES score. Funding Maintenance was estimated to provide funding of \$615 million in 2010, of which almost \$492 million was paid to Catholic systems and \$123 million to independent schools. This represented 13 per cent of the general recurrent funding for all Catholic schools in that year, or an average of \$747 per student, and 4.9 per cent of the general recurrent funding for all independent schools.

Figure 27: Estimated number of non-government schools by funding status, 2009 to 2012



Source: DEEWR administrative data.

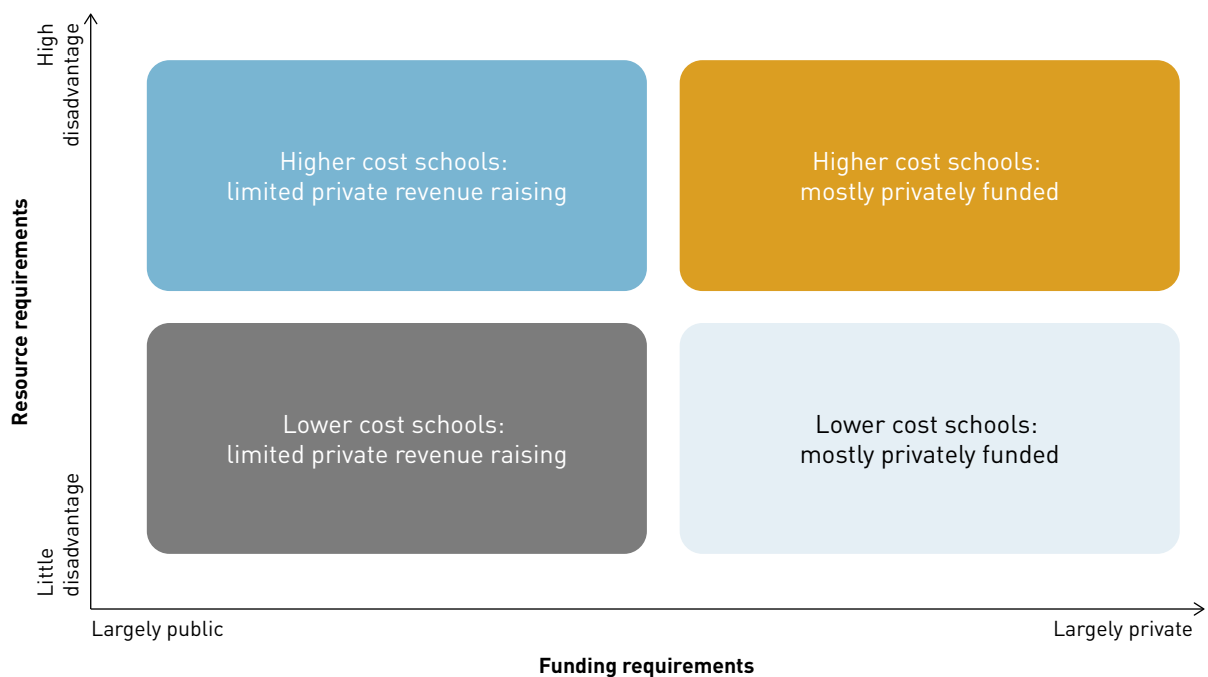
'Funding Guaranteed' schools are SES-funded schools whose SES scores increase between quadrenniums, resulting in reduced per student funding entitlements. These schools have their per student dollar amounts frozen in dollar terms until the value of their entitlements based on their new SES score (indexed by AGSRC) is equal to, or greater than, their previous entitlements. They then move to being funded on their new SES score. The Funding Guarantee works as a transitional arrangement and most of the current Funding Guaranteed schools will move to their actual SES score funding before the end of the quadrennium (see Figure 27). The Funding Guarantee is estimated to provide funding of \$11.8 million over the current 2009–2013 funding period to affected systems and schools.

2.3.2 The concept of need

The principle of needs-based funding for non-government schools is generally accepted within the Australian community. Debate has largely focused on what constitutes need, how it is measured, and what quantum of funds should be provided (Wilkinson et al. 2006). However, need is not the sole consideration in deciding the allocation of funding for schooling. For many decades, governments have also provided a measure of assistance for students in all registered schools.

Submissions to this review accepted that government recurrent funding to non-government schools should reflect 'need'. There are different ways in which need can be conceptualised and defined. Figure 28 depicts two distinct senses of need.

Figure 28: Two dimensions of need in funding for schooling



The horizontal axis—**Funding requirements**—which is the focus of this chapter, refers to the extent to which a non-government school or system requires public funding to provide the expected standard of education to its students because it is unable to fund this through fees and charges to parents and other private sources.

The vertical axis—**Resource requirements**—is the need for resources given different levels and types of school and student characteristics which affect the cost of achieving desired schooling outcomes. This concept of need features in Chapter 4.2 in relation to the proposed per student amounts and loadings under the schooling resource standard.

In terms of the balance in funding requirements between public and private funding, need can be conceptualised as either:

- the **capacity** for parents and a school community to contribute towards the cost of schooling through fees and other private assistance
- the **actual extent** to which they do so, which may reflect the extent to which they are asked to contribute by schools or are willing to contribute.

Both these concepts can have significant implications for policy, as well as the practicalities of how need is measured. Defining need as capacity of parents to contribute assumes that all those with the same level of capacity have a similar willingness and expectation to make a financial contribution through fees. Currently across the non-government sector there is a wide range of fees charged among schools with similar SES scores. Among non-government schools funded according to their SES score, fees generally rise as SES scores rise, but the variation in fees charged is also very large (see Figure 29).

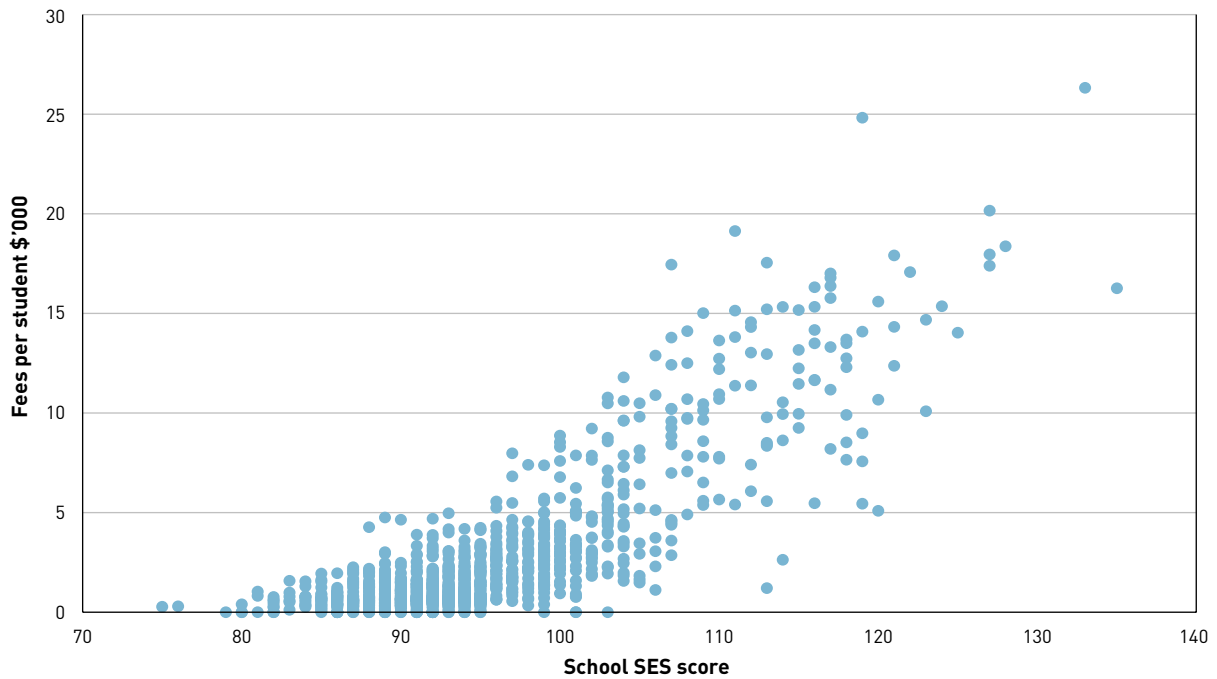
One argument for allocating public funding based on actual school private income or resources is that this would better accommodate the long-established diversity in parental contributions within the non-government sector (see Figure 30). It could also act as a constraint on fee increases which could be a barrier to parents choosing a non-government school.

However, there are significant issues with linking public funding to the actual recurrent resources available to non-government schools. Before the SES funding model was introduced, the ERI was used to compare the level of private income that a school had available with the cost of a standard basket of recurrent resources per pupil (see Box 4). By the late 1990s there were several concerns with the ERI, including that it was:

- complex and difficult to understand, primarily due to decisions by successive governments not to reduce the dollar amounts received by schools when they were assessed to have moved into a lower funding category. As a result, the original 12 funding categories had increased to 31 by 1997
- not perceived to be applied consistently and equitably across similar schools, with scope for expert advice about its application to confer advantage on some schools
- constraining investment in education because any significant additional private investment (for example through fees) resulted in a reduction in government subsidies
- lacking in flexibility because it required historical levels of private funding to be maintained over time (DEETYA 1997; KPMG 1996; Wilkinson et al. 2006).

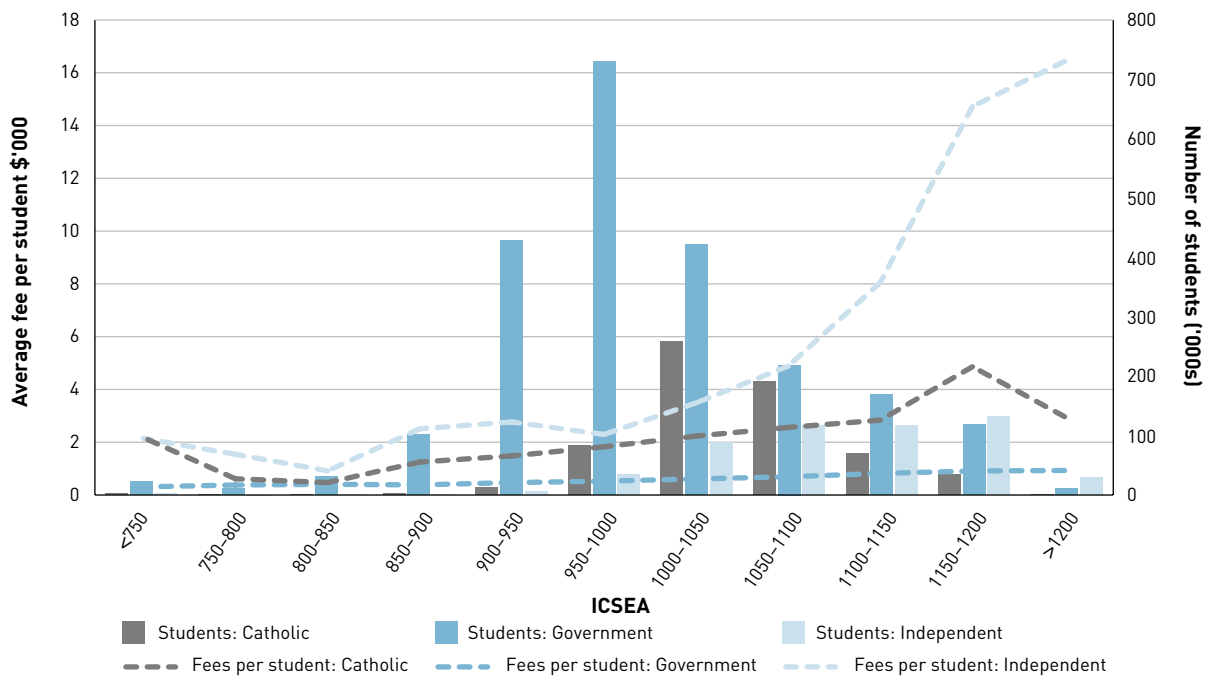
The shift to the SES funding model, and with it funding need based on capacity to contribute, occurred because it was believed that it would provide a transparent, simpler and fairer funding system. In particular, a measure of capacity such as SES was seen as more objective and verifiable, while also minimising disincentives for parents to invest in their childrens' schools.

Figure 29: Average fees per student for SES funded schools, 2009



Source: DEEWR administrative data 2009.

Figure 30: Average fees per student and student numbers by Index of Community Socio-Educational Advantage and sector, 2009



Note: Includes gross fees, charges and parental contributions. Excludes schools with no ICSEA 2010 score. Catholic schools include both systemic and non-systemic Catholic schools.

Source: ACARA dataset 2011.

Box 4: The Education Resources Index

The ERI measured a non-government school's need for government funding on the basis of the shortfall between its private income and a standard level of resources based on government school per student costs.

- Private income included all income raised by a school for recurrent, capital and boarding purposes including gross income from fees, excursions, fundraising, donations and other activities. Schools were also required to place a monetary value on goods and services provided free of charge. Deductions were then made for:
 - a Capital Allowance—this provided schools with the means to regenerate their capital facilities over a 20-year period. The allowance was calculated on a sliding scale, providing most assistance to the neediest schools
 - a Boarding Allowance—this was a per capita deduction for the reasonable capital and recurrent costs of a school's boarding operations.
- Adjusted private income was compared to an Assessment Standard representing the standard level of resources against which the relative needs of non-government schools were assessed. It represented the cost of operating a school of a given size with weights applied to primary schools under 200 students and secondary schools under 500 students.

Also under the ERI arrangements:

- Schools were required to maintain their expenditure on recurrent resources and increase their private income by an average of 3 per cent per annum. They could increase their private income by up to 5 per cent per annum without penalty of being re-categorised to a lower funding level.
- A Capital Concession allowed private income in excess of the Capital Allowance to be deducted from a school's private income in some cases. It was not automatic and approval depended on the income being applied to eligible projects to cater for existing students.

Data for the ERI calculations was collected through an annual Financial Questionnaire and Census.

Source: KPMG 1996; DEETYA 1997.

Linking recurrent funding to school assets, as was suggested in some submissions, would also be problematic in that:

- the major asset of most non-government schools is the land and buildings they occupy, and the capital value of these assets varies widely depending on location and may reflect historical rather than current endowments that cannot be realised readily
- data on assets and resources would be expensive and burdensome to collect and hard to verify
- cash reserves held by schools and related bodies vary considerably between schools, reflecting not just capacity and age of the school, but also the school's past decisions about how to manage its affairs and to provide for future capital and recurrent needs.

In the panel's view there remain a number of strong principled and practical arguments for continuing to base the allocation of the public contribution to non-government schools on the expected capacity of parents to make a financial contribution, rather than the extent to which they actually do so or have done so in the past. In particular, capacity to contribute:

- provides a fairer, more consistent and transparent basis for funding the different types of non-government schools to which parents can choose to send their children

- is simpler and less intrusive for schools and governments to administer than a model based on actual contributions given that different schools finance their recurrent and capital needs in very different ways
- provides stronger incentives for private investment by parents and others. Linking public funding to the actual private contribution would distort these incentives
- involves a more comprehensive and objective sense of a school's need for public assistance. Actual recurrent fees and charges are not always an accurate indicator of need as schools operate in different ways, with some relying on other sources of private income, for example, donations and levies for a mix of capital and recurrent purposes.

The panel recognises that this approach will need to be implemented carefully within a new funding model to adequately take account of the considerable diversity in the existing private contribution among non-government schools. Given the Australian Government's announcement that no school will lose a dollar per student as a result of this review, the panel has explored how an approach based on the capacity of parents to contribute can be implemented consistent with that commitment and within the totality of the new funding arrangements. The panel believes that this is essentially achievable in the detailed development of a new model, depending on the other funding parameters and transitional arrangements.

Recommendation 2

In a new model for funding non-government schools, the assessment of a non-government school's need for public funding should be based on the anticipated capacity of the parents enrolling their children in the school to contribute financially towards the school's resource requirements.

2.3.3 The measure of need

Submissions to the review expressed differing views over how need should be measured and whether SES is suitable for this purpose. Many submissions from the independent sector supported the continued use of SES, arguing that it provides an effective and efficient mechanism for directing Australian Government recurrent funding according to need. In particular, it was said to minimise disincentives for private investment in schooling and to be based on reliable, objective and independent data.

On the other hand, organisations from the Catholic sector argued that SES was inappropriate as it did not support their philosophy of providing low-fee schooling that is accessible to students from all backgrounds. SES was said to effectively assume a homogenous population for each school with each parent having the same capacity or willingness to contribute. A hybrid measure was suggested involving indicators of both the availability of recurrent resources and the SES of the school.

Organisations and individuals representing government schools also argued that the area-based measurement of SES overestimated need because students attending non-government schools were said to often come from higher SES households within each census Collection District. State and territory government submissions argued that SES was not an effective differentiator of need where disadvantage is widely spread within a geographical area or where economic disadvantage is compounded by other factors such as remoteness.

In considering these issues the panel identified several desirable characteristics any measure of need should have for the purpose of allocating public funding to non-government schools:

- accuracy and validity in measuring the capacity of the school to be funded from private sources in the context in which it is applied to individual schools or to whole systems

- consistency in the treatment of systems and schools in similar circumstances
- economy in the use of limited public funds by providing incentives for private investment to be maintained and increased over time
- objectivity, simplicity and transparency in the derivation of the measure
- sensitivity to changes in circumstances
- economy in administrative costs for schools, systems and governments.

It was recognised that no one measure is likely to satisfy all these requirements. It was also recognised that changing the measure of need can have a significant impact on school funding, creating the potential for uncertainty for schools.

Accuracy and validity refer to the extent to which SES measures what it purports to measure, that is, the capacity of non-government systems and schools to generate funds on their own behalf (DETYA 1998). When the SES measure was being developed in the late 1990s, it was the subject of a validation study. This study concluded that, overall, SES correlated well with a range of measures of parental income and wealth, at least at a national or state or territory level (DETYA 1999). Ongoing questions about the accuracy of the SES measure focus primarily on its derivation from a small geographical area rather than individual data.

When the SES measure was developed, the potential to link student addresses to census Collection District data was innovative yet practical, making use of the lowest available level of census data and home addresses for students which were already collected by schools as a matter of course. While there was an awareness that even such small areas were not completely homogenous, it was believed that differences between Collection Districts were generally greater than the difference between individuals within a Collection District (DETYA 1998). As this information is not directly linked to funding, it was also seen as independent, transparent and reliable, while avoiding the concern that a more direct measure would require a special collection of information from each family, raising issues of privacy and reliability.

More recent work has questioned the assumption that Collection Districts are relatively homogenous and that there is limited potential for error in making judgments about individuals, based on the characteristics of the area in which they live—known as the ‘ecological fallacy’. Using census data for Western Australia and measuring SES using ABS Socio-Economic Indexes for Areas, one study suggests that there is a large amount of heterogeneity in the SES of individuals and families within small areas (Baker and Adhikari 2007). Another ABS study found that this holds across Australia (Wise and Mathews 2011). Other work confirms the potential for misclassification by relying on area-based measures (Lim and Gemici 2011). It has been argued that, on the basis of some limited local area data within the same Collection Districts, government school students are less likely to come from high-income families than students from Catholic and independent schools (Preston 2010).

The development of individual measures of SES has only become technically possible in recent years and debate over the details of the methodology is continuing. The Index of Community Socio-Educational Advantage (ICSEA) was developed specifically for the purpose of identifying like schools for comparison of NAPLAN results on the *My School* website and includes a large number of components which are weighted in a particular way to maximise its explanatory power for this purpose (see Box 5). As such it would not be a suitable measure of need for allocating funding to non-government schools, but it does show that individual measures of SES are becoming more feasible. For the 2010 calculations, ICSEA was a hybrid measure that used direct parent data where it was available from that already collected at enrolment and indirect area-based data from the ABS census in other cases.

Noting that there are concerns about the robustness of ICSEA, which is still a relatively new measure and continues to be bedded down, the panel considers that there is a potential to develop a more precise measure of parental capacity to contribute to the resource base of a non-government school. In the meantime, the existing SES measure could be used as the basis for estimating the quantum of the expected private contribution as described in Chapter 4.2.

Recommendation 3

For the purposes of allocating public funding for non-government schools, the Australian Government should continue to use the existing area-based socioeconomic status (SES) measure, and as soon as possible develop, trial and implement a new measure for estimating the quantum of the anticipated private contribution for non-government schools in consultation with the states, territories and non-government sectors.

Box 5: How the Index of Community Socio-Educational Advantage is calculated

The variables used in calculating a value on the ICSEA scale are:

- Socio-educational advantage—this is measured by variables for parental occupation and education.
 - Where data is collected directly from parents at the point of school enrolment, it includes variables for:
 - occupation (associate professional and skilled non-professional)
 - school education (Year 10 or equivalent, Year 9 or equivalent or below)
 - non-school education (bachelor’s degree or above, advanced diploma/diploma, non-school qualification).
 - Where data is not able to be collected directly from parents, it is calculated indirectly at census Collection District level using variables for:
 - education (percentage of people aged 15 years and over with a certificate qualification, and the percentage with no post-school qualifications)
 - occupation (percentage of employed people who work in a skill Level 4 occupation, percentage of employed people who work in a skill Level 5 occupation)
 - others (percentage of families that are one-parent families with dependent offspring only, percentage of occupied private dwellings with no internet connection).
- Remoteness—this is measured at school level by the ABS Accessibility/Remoteness Index of Australia.
- Indigenous—this is measured at school level by the percentage of students in the school who are Indigenous.
- Disadvantaged LBOTE—this is measured at school level by the percentage of students from a LBOTE combined with the percentage of parents with an education of Year 9 equivalent or below.

Source: ACARA 2011.

2.3.4 Funding Maintenance

Funding Maintained arrangements were a key issue in representations to the review, particularly the equity between Funding Maintained and non-maintained schools with the same SES score and the effect of Funding Maintenance on the perceived integrity of the SES funding model.

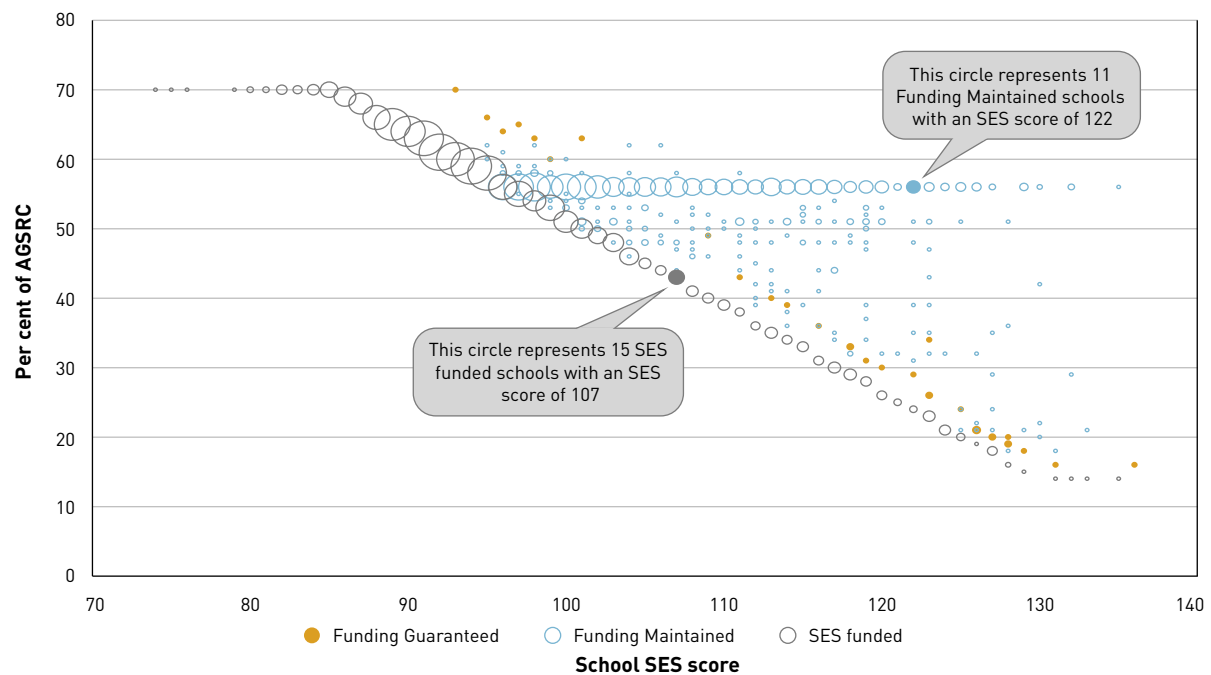
It was also argued that most of the additional funding provided through Funding Maintenance goes to higher SES schools and that a confusing number of different levels of per capita funding can apply to schools on the same SES score. Some independent sector representatives argued that the greater affordability of Catholic systemic schools was underpinned by Funding Maintenance and that the same level of choice, accessibility and affordability should be available for all parents seeking to choose an education for their child.

Organisations representing the Catholic sector and other independent Funding Maintained schools argued that they need at least the current level of total government funding in real terms to continue to educate students in those schools. Any reduction in funding would put pressure on fees or resource adequacy. Withdrawal of that funding, it was argued, could affect the financial viability of those schools in the future.

The various rates of AGSRC at which non-government schools are actually funded are depicted in Figure 31. The size of each circle represents the number of schools with a particular SES score and funding rate expressed as a percentage of AGSRC. The colour of each circle indicates the funding status of the schools. Figure 31 shows the extent to which the SES funding model applies only partially to the sector, with the largest divergence relating to some 890 Funding Maintained Catholic systemic schools, 97 per cent of which are funded at 56.2 per cent of AGSRC. It also shows that:

- most Funding Maintained schools are in the middle of the SES distribution, with two-thirds having an SES score between 95 and 110. Only 10 per cent of Funding Maintained schools have a school SES score of 120 or higher
- while the per student amounts provided by Funding Maintenance are greatest for schools with the highest SES scores, the per student amounts for most schools which are not high SES are considerably smaller
- it would be difficult to completely address the funding anomalies associated with Funding Maintenance by recalibrating the existing funding model in a way that did not disadvantage any school and also retained a reasonable degree of targeting of assistance to schools in need.

Figure 31: Funding rates by school SES score and funding status, 2010



Note: Excludes special schools, special assistance schools and majority Indigenous student schools, all of which receive automatic entitlement to maximum funding.

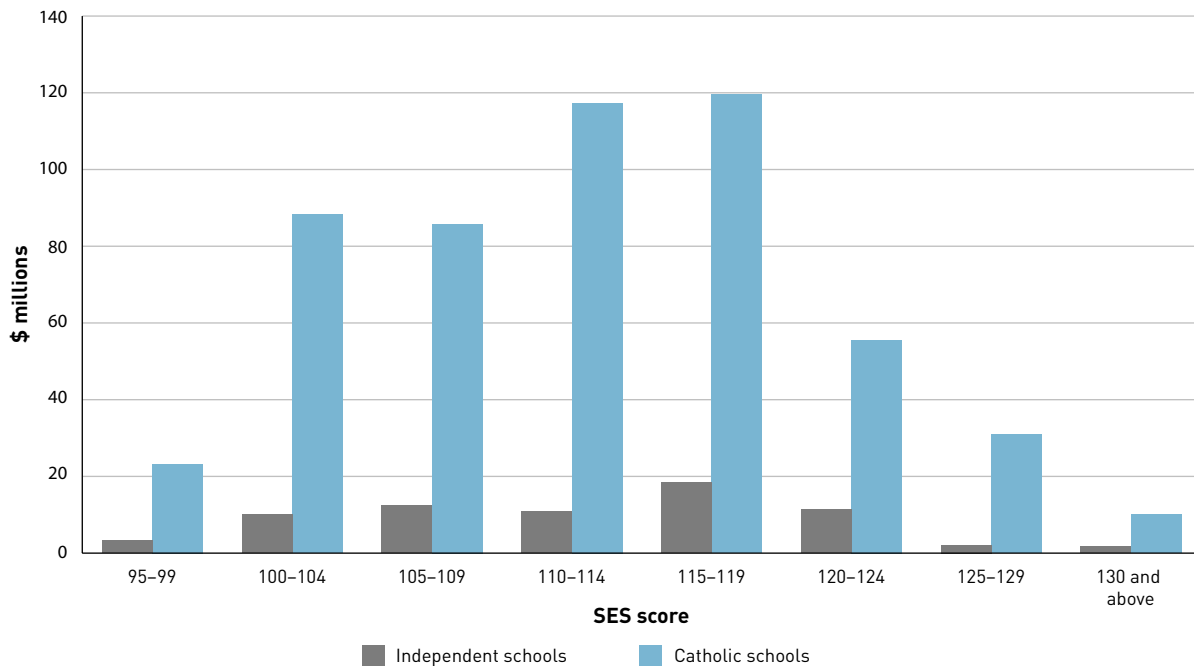
Source: DEEWR administrative data 2010.

By jurisdiction, the highest concentration of Funding Maintained schools is in the Australian Capital Territory (89 per cent) and Northern Territory (61 per cent), while the highest proportion of SES funded schools is in Tasmania (79 per cent). The average size of Funding Maintained schools is higher (517 students) than for SES funded schools (381 students). Funding Maintained status applies to all of the campuses of a school, including new campuses of an existing Funding Maintained school. In contrast, all new schools are funded on their SES score.

Figure 32 provides a picture of the aggregate funding provided to schools through Funding Maintenance, taking into account both the number of schools at different SES scores and their enrolments, as well as the differences between Funding Maintained and SES model rates. In the Catholic sector, 77 per cent of the funding is nominally allocated by the Australian Government to schools with an SES score between 100 and 119. In the independent sector, over one-quarter of the funding is allocated to schools with an SES score between 115 and 119.

For systemic schools, the impact of Funding Maintenance at the school level is also affected by allocation decisions by system authorities based on their own funding formulas or assessments of need, which take into account a wider range of factors than the SES funding model (see Chapter 2.1). Therefore, the funding nominally allocated to a school under the SES formula may be greater or less than the actual allocation by system authorities. This effect is largest in the eight Catholic systems. Analysis suggests that school size, remoteness and majority Indigenous student composition are the most significant dimensions around which this redistribution occurs. While an element of the support provided through Funding Maintenance is therefore redistributed among schools in Catholic systems, the major impact is that it allows fees overall to be lower than would otherwise be the case within the same overall level of resources.

Figure 32: Estimated value of Funding Maintenance to schools by school SES score, 2010



Note: Catholic schools include both systemic and non-systemic Catholic schools.
 Source: DEEWR administrative data 2010.

In effect, Funding Maintenance represents a compromise between the previous and current funding arrangements for non-government schools, which allows earlier levels of funding to continue for some schools. Moreover, given the extent to which some systems and schools benefit from it, it will take many years before all schools are funded on a common basis if the current arrangements continue.

In the panel's view, it is critical that funding for all non-government systems and schools is based on a single measure of need to ensure the integrity and fairness of new funding arrangements. The funding model set out in Part 4 of this report outlines a framework for funding schooling that would achieve these objectives over the longer term.

Recommendation 4

From 2014, non-government schools should be funded by the Australian Government on the basis of a common measure of need that is applied fairly and consistently to all.

2.3.5 Minimum public contribution

The panel noted a number of arguments in submissions about whether or not a minimum public funding level should be provided to all non-government schools and why.

Those against a minimum public contribution argued that some schools already have a level of resources, which they have raised from parents and their communities over a period of time, significantly above that required to meet reasonable resource needs. Providing public funding to these schools was criticised as unnecessary and a poor use of limited public funds when needs are higher elsewhere. High fees in these schools may be an indicator of the willingness and capacity of some parents to invest very heavily in their children's schooling, as well as a preference for private schooling that is unlikely to be affected by reduced public funding.

The panel also noted a number of arguments that could be put in favour of a minimum level of public funding for all non-government schools, principally that the Australian Government has for many decades provided an entitlement to every student in every school.

The panel acknowledged the Australian Government's announcement that no school would lose a dollar per student as a result of this review. This means that under a revised funding model every non-government school would receive at least some public funding regardless of the capacity of the school to contribute or of its actual contribution to the funding for the schooling of its students.

Finding 13

The most efficient way to meet the Australian Government's announcement that no school would lose a dollar per student as a result of this review is through a minimum public contribution towards the cost of schooling in non-government schools.

2.3.6 Conclusion

The panel concluded that the major strength of the existing SES funding model is that public funding is directly related to the capacity of non-government schools to fund their own resourcing requirements. The use of an SES-type measure for this purpose provides a fair, consistent, and transparent basis for funding the different types of non-government schools that parents can choose to send their children. It is also simpler and less intrusive for schools and government to administer and does not distort incentives for private investment.

However, the area-based SES measure used at present is subject to potentially significant error due to variability in family SES within census Collection Districts. This should be replaced in time with a more precise measure that would reflect directly the circumstances and background of each student in a non-government school.

The panel was also concerned about the extent of exceptions to the SES model under the Funding Maintenance arrangements. In the panel's view, it is critical that funding for all non-government systems and schools is based on a single measure of need to ensure the integrity and fairness of new funding arrangements. The extent of exceptions in the current arrangements calls into question the integrity of the overall model for funding non-government schools. The panel considers that governments have an important role to play in funding non-government schools and that this needs to occur within a coherent and principled framework that is applied consistently to all non-government schools.

The panel recognises that the approach outlined in Part 4 of this report will need to be implemented carefully within a new funding model to adequately take account of the diversity of schools and their actual private sources of revenue.

2.4 Capital funding

Student outcomes are strongly influenced by the design of learning spaces and the facilities in a school. In preparing students for participating in the dynamic and constantly changing world, schools should be resourced so that they can create settings for innovative teaching, connect with new technologies, and match the requirements of contemporary curriculum.

All levels of government play a role in providing funding to government and non-government schools for the maintenance of school capital and for major capital works. However, state and territory governments have primary responsibility for these activities in government schools, with the Australian Government providing some supplementary funding through the National Schools SPP. In the non-government sector, the Australian Government plays a greater role than state and territory governments in providing capital funding to non-government schools, though private income provides, on average, the largest share of income for capital works in these schools.

The *My School* website has provided, for the first time, information on capital expenditure in schools. These data confirm community opinion that there is an uneven investment in capital and infrastructure in schools, and that this is particularly apparent when the total capital expenditure of the three schooling sectors is compared. It is also clear that, on average, the facilities and infrastructure within some government schools are not of a comparable standard, and this is impacting on the attitudes and morale of students and staff, as well as on school enrolments.

This chapter describes the current investment by governments and the community in school capital and infrastructure, and discusses a number of issues relating to maintenance and major works for existing schools, as well as processes for establishing new schools. While the case for change is presented in this chapter, the panel's proposal for future capital funding is detailed in Chapter 4.3.

2.4.1 State and territory government capital funding

In addition to the primary responsibility of state and territory governments in funding capital and infrastructure in government schools, they also have responsibility for registering and regulating all schools, including new schools, in their state or territory. As part of this, both government and non-government schools within a jurisdiction must comply with various standards and regulations related to school buildings and facilities in order to meet their ongoing registration and regulatory requirements. In the government sector, state and territory governments also have responsibility for the costs of establishing new schools and for school closures.

Government schools

State and territory governments generally allocate a funding amount for maintenance and minor works to schools, but the degree to which this is managed centrally or by schools varies. For example, New South Wales and the Northern Territory manage a large proportion of costs centrally. In contrast, funding for maintenance and minor works is generally allocated to individual government schools to manage in the Australian Capital Territory and Victoria, with schools able to choose how their recurrent resources are allocated between staffing and other recurrent costs such as maintenance and minor works.

For most states and territories the actual amount of capital funding allocated for each school is determined using a combination of formulas and nominal allocations. The resourcing formulas include separate allocations for minor capital expenses, such as cleaning, utilities costs, school grounds and building maintenance, and equipment. These expenses are calculated based on relevant school characteristics, such as:

- enrolments
- school size
- special physical, demographic or geographical characteristics of schools
- school complexity factors such as multi-site schools.

Keating et al. (2011) found that all government systems retain responsibility at a central level for major capital works and infrastructure, major repairs, and ICT infrastructure and networking. Allocations to schools for these more major capital items are based on a combination of condition assessments, planning related to enrolments and population growth, and emergency allocations. The allocations are managed either through education departments or their regional offices, a sub-agency such as the Asset Management Unit in New South Wales, or a public assets agency in another department, such as Building Management and Works in Western Australia.

Non-government schools

Most jurisdictions provide some capital funding for non-government schools in the form of grants or, more commonly, interest rate subsidies (see Table 15). In some cases, eligibility is limited to schools servicing disadvantaged communities. In other cases, eligibility may be contingent on meeting priority needs, as determined by the state or territory government.

School registration and facilities standards

As part of the responsibility of state and territory governments to ensure universal access to education for all students, legislation generally provides the state or territory Education Minister with the power to establish government schools where there is a need. With the exception of Victoria, government schools in each state and territory are not required to be formally registered. However, legislation places expectations on government schools around curriculum and student welfare that are similar to the standards that non-government schools are expected to meet in order to be registered.

As well as establishing new government schools, the Education Minister has the power to amalgamate and close government schools by following prescribed procedures outlined in the legislation. For example, in Western Australia, section 56 of the *School Education Act 1999* requires the minister to consult with the affected parties of a proposal to amalgamate or close schools, including parents and students, school councils and P&C associations on matters such as the alternative arrangements for the enrolment of students who are affected by the proposal. The appropriateness of the arrangements and the disbursement of any assets realised as a result of the proposal are also discussed in consultations.

Table 15: State and territory capital funding for non-government schools

Jurisdiction	Funding provided
New South Wales	Interest subsidy scheme for eligible schools in ERI categories 4–12 which contribute at least 15% of project cost.
Victoria	Interest subsidy scheme for non-government schools subsidises up to 66% of interest to a maximum of \$5,000 for two financial years. Applies only to commercial loans of up to 10 years' duration.
Queensland	Capital assistance scheme provides grants to schools allocated through BGAs. External infrastructure subsidy meets some other costs associated with capital works projects.
Western Australia	Low-interest loan scheme subsidises borrowings at varying rates according to a project's priority, e.g. whether it assists in providing places for students at schools in areas of population growth or is simply to upgrade facilities.
South Australia	Small interest subsidy scheme.
Tasmania	Capital assistance scheme provides both interest rate subsidies and grants.
Australian Capital Territory	Not currently provided.
Northern Territory	Capital assistance scheme provides a 50% capital subsidy and 50% of the interest charged by the lending institution. Subsidies paid over 10 years.

Source: Adapted from Keating et al. 2011.

The registration of new non-government schools is generally through a specific body set up under legislation for that purpose. For example, in Queensland the Non-State Schools Accreditation Board has been set up to process applications for the registration of new schools. Similarly, South Australia has the Non-Government Schools Registration Board, established under the *Education Act 1972*. The new school must satisfy a number of requirements before it can be registered, as set out in Chapter 1.1.

In deciding whether to establish a new non-government school, the state or territory Education Minister needs to be satisfied that there will be sufficient children available to attend the school, the establishment of the school will not adversely affect the viability of other schools in the area, and the school has sufficient students to be able to provide a range of curriculum programs and learning experiences.

As part of registering schools, state and territory governments are responsible for ensuring that school facilities are of an appropriate standard. What standards are considered appropriate and how they are assessed vary between jurisdictions. Some jurisdictions have statements about standards for school buildings. For example, in New South Wales the School Facilities Standards apply to all new schools, and in Tasmania the Building Better Schools Guidelines are used for all capital projects in government schools. While these standards exist, the monitoring of government school facilities is believed to be ad hoc. School registration boards set up in each state and territory have the capacity to inspect schools to ensure that they are meeting their registration standards, including those that are related to facilities, but little information is available on how this is done.

2.4.2 Australian Government capital funding

The Australian Government has played a supplementary role in the provision of funding for school capital since the 1960s. At this time, the Australian Government was responding to clearly identifiable physical needs, and beginning to link effective and modern schooling to a productive economy. Capital grants were initially provided for science laboratories and equipment and libraries, in both the government and non-government school sectors (Wilkinson et al. 2006). Some form of Australian Government funding for school capital has operated in both sectors since then.

Capital funding for non-government schools

The Australian Government currently contributes to non-government school infrastructure via the Capital Grants Program. The objectives of the program include the provision and improvement of non-government school capital infrastructure, particularly for the most educationally disadvantaged students, and ensuring that attention is given to the refurbishment and upgrading of capital infrastructure for existing students, while making provision for needs arising from new demographic and enrolment needs (DEEWR 2010). Between 2009 and 2012, the program is estimated to provide \$543 million to non-government schools. Capital grants are intended to be supplementary to the private income that non-government schools use to provide, maintain and upgrade school facilities.

Capital grants are provided through Block Grant Authorities, which have been established to receive and assess grant applications, make recommendations to the Australian Government Education Minister about various matters, and administer non-government capital grants for participating schools. There are two Block Grant Authorities in each state, one servicing the Catholic school sector and the other servicing independent systems and schools. There is a joint Catholic and independent Block Grant Authority in both the Northern Territory and the Australian Capital Territory.

Capital funding for government schools

While the Australian Government does not currently operate a separate capital grants program for government schools, a proportion of the current National Schools SPP is funding that was previously provided for capital projects under the Capital Grants Program. The amount for capital funding that was 'rolled into' the National Schools SPP is roughly equivalent to \$350 to \$400 million per year.

The Australian Government also provides funding for infrastructure in government and non-government schools through a number of National Partnerships (see Table 16).

Table 16: National Partnerships relating to school infrastructure

Program	Funding	Description
Building the Education Revolution	An estimated \$16.31 billion until 2011–12 under three main elements:	To provide contemporary educational facilities through new infrastructure and refurbishments to schools. BER funding has been allocated for approximately 24,000 projects.
	Primary Schools for the 21st Century	Funding approved for 10,475 projects in 7,920 schools including new libraries, multipurpose halls, classrooms and the refurbishment of existing facilities.
	Science and Language Centres for 21st Century Secondary Schools	Funding approved for 537 schools to refurbish or construct new science laboratories or language learning centres.
	National School Pride	Funding approved for 12,639 projects in 9,462 schools, including the refurbishment of buildings and construction or upgrade of fixed shade structures, covered outdoor learning areas, sporting grounds and facilities and green upgrades.
Trade Training Centres in Schools	\$2.47 billion until 2016–17	Funding for the building of new, or the upgrading of existing, trade or vocational education and training facilities in schools. Funds of \$1.03 billion have been allocated over three rounds, with a fourth round closing in November 2011.
Digital Education Revolution	\$2.50 billion until 2012–13 ^(a) Includes National Secondary School Computer Fund: funding of \$1,000 per computer and up to \$1,500 for the installation and maintenance of that device.	Funding assists schools to provide new computers and other ICT equipment for students in Years 9 to 12, as well as funding for installation and maintenance. As at 30 June 2011, over 589,000 computers had been installed.

(a) Subject to renegotiation prior to termination date.

Source: DEEWR administrative data 2011.

2.4.3 Private income and support from the community

Parents and benefactors play a significant role in funding facilities in non-government schools. Generous contributions by these parties are an essential part of these schools, and are received as specific tax deductible donations, fees for capital that are transferred from recurrent funds, or income raised through fundraising activities. In 2009, \$1.8 billion in capital expenditure came from these sources in the non-government sector (ACARA dataset 2011).

Fees and income from fundraising activities are also collected in government schools and expended on capital projects. In 2009, \$181 million was expended on capital projects from private sources in the government sector.

In addition to the significant contribution of fees, donations and fundraising to capital projects in schools, there are a variety of ways in which the community can both support and use school infrastructure. For example, Local Schools Working Together is a pilot program funded by the Australian Government that aims to foster a shared approach to the construction and use of educational facilities between government and non-government schools. In 2009, two funding rounds totalling \$62.5 million contributed towards the construction of 26 shared educational facilities across Australia.

Another example is the National Public Private Partnership Policy and Guidelines, which have been adopted by most Australian Government and state and territory government agencies since 2008. The policy requires that governments consider public private partnerships for any school capital project, where the cost exceeds \$50 million.

Overall, these initiatives recognise the financial challenges associated with developing and maintaining school facilities, and seek to maximise their benefit for the community at large, while identifying efficient ways to resource them. They also highlight the potential for coordinated investment in the planning of school infrastructure across the schooling sectors.

However, submissions to the review from all schooling sectors raised concern about the inefficient investment in and use of school facilities. Some submissions discussed the need for school facilities to be accessible outside of school hours for community use, and for planning to include consideration of how these assets can be converted to alternative uses to provide long-term value to the community.

The panel recognises the role of government and non-government school systems and schools in driving and supporting these mutually beneficial arrangements, and believes that consideration of the broader potential for community use of school facilities should be built into all planning and funding processes.

2.4.4 Levels and sources of capital investment in aggregate

Capital expenditure by jurisdiction and sector

ACARA collects national data on the total level and distribution of capital expenditure and capital funding sources for each schooling sector (Table 17). It is important to note that these figures include the significant impact of the Building the Education Revolution National Partnership, and so do not represent the ongoing level of Australian Government funding or the proportional commitment of the various funding sources.

Table 17: Level of capital expenditure by funding source, 2009 (\$m)

	Australian Government	State government	Fees	New loans	Private—other	Total
Government	1,443	1,524	169	0	12	3,148 (49%)
Catholic	806	58	230	288	247	1,629 (26%)
Independent	549	36	223	375	415	1,598 (25%)
Total	2,798	1,618	622	663	674	6,375 (100%)

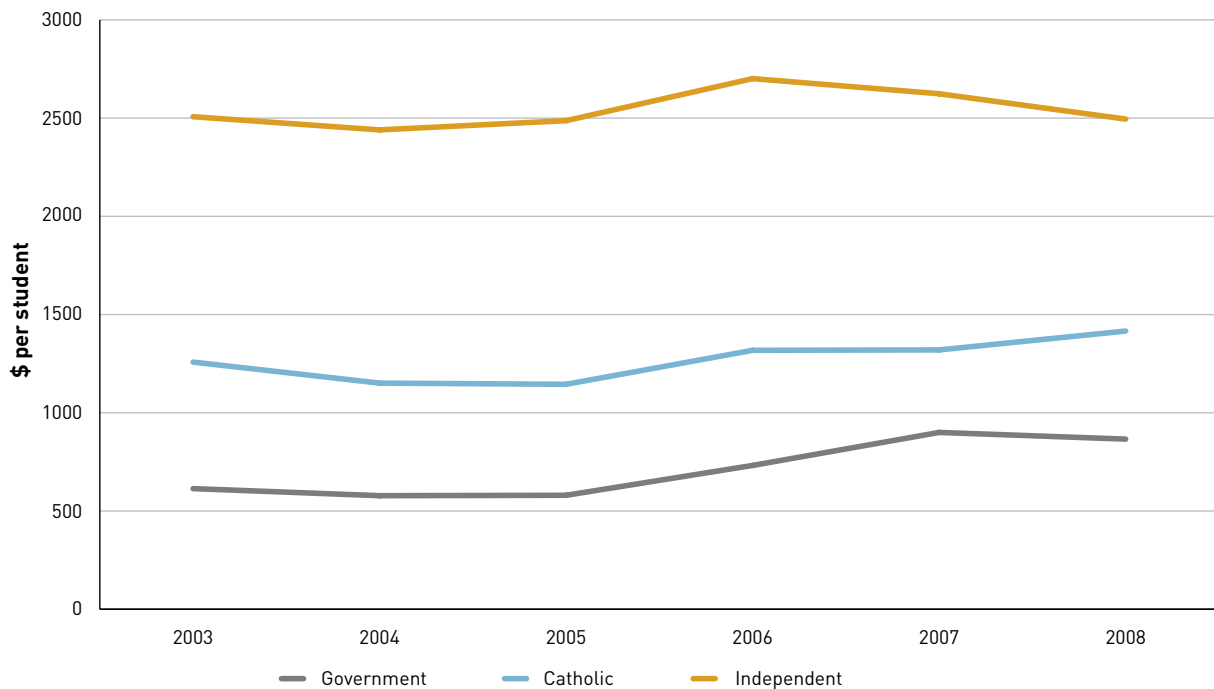
Note: 'Fees' includes income received from parents as school fees; 'new loans' refers to the amount funded by capital loan drawdowns; and 'private—other' includes income received from other sources such as donations, received specifically for capital purposes, from fundraising activities and profits.

Source: ACARA dataset 2011.

According to Table 17, even with additional government funding from the Building the Education Revolution National Partnership, only 49 per cent of the total expenditure on school infrastructure was in government schools, a far lower percentage than the government sector's enrolment share of 66 per cent.

Figure 33 shows that government investment in school infrastructure lags far behind investment in the non-government sector. These figures clearly demonstrate a high level of private sector commitment to investment in non-government schools. This analysis most likely hides wide variation within sectors, particularly within the independent sector, which is the least homogenous sector in terms of student demographics. In addition, because Australia does not have an accepted national standard against which the adequacy of school infrastructure can be assessed, it is not possible to know whether these figures indicate a significant under- or overinvestment in school capital in any schooling sector.

Figure 33: Average capital investment per student (in 2008 dollars)



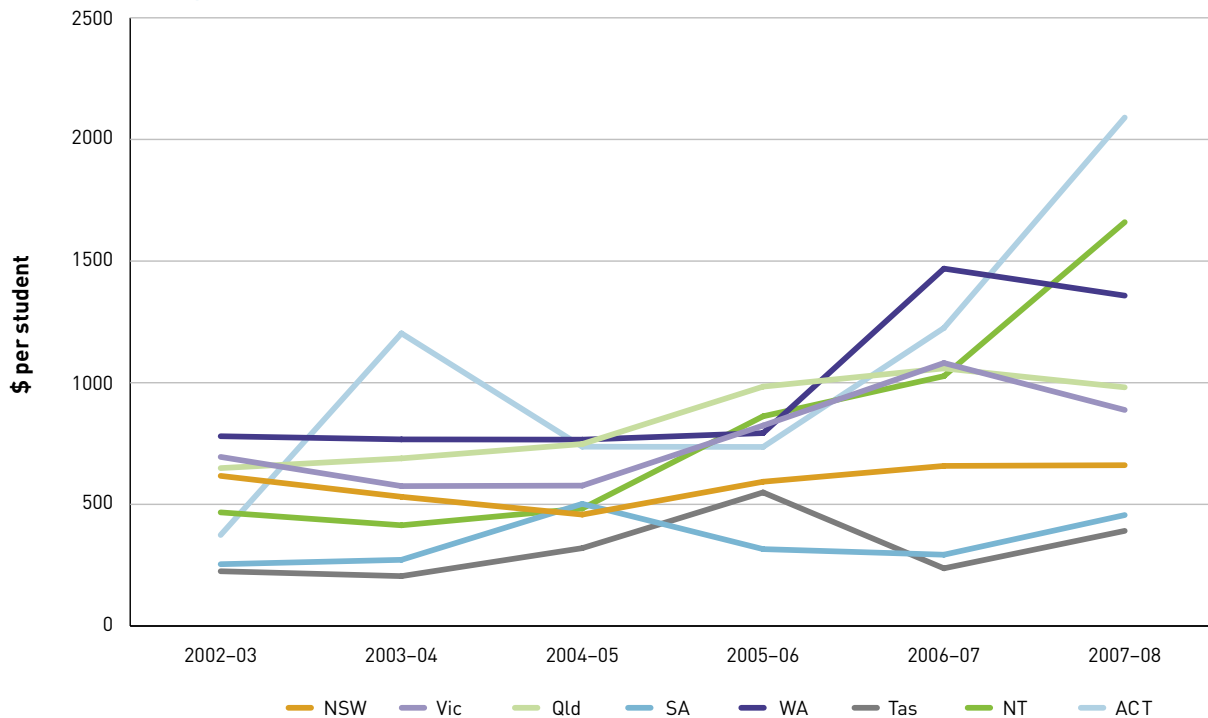
Source: MCEETYA, *National report on schooling in Australia, 2003 to 2008*.

Funding levels in government schools vary by jurisdiction. Figure 34 indicates the extent of variation in investment by jurisdiction, but does not tell us what it can be attributed to in terms of differences in costs, nor in choices about funding capital. Figure 34 includes Australian Government and state and territory government expenditure, as well as other reported expenditure.

As well as the level of investment, the sources of capital funding vary by sector and jurisdiction. The proportion of capital expenditure for government, Catholic and independent schools by funding source is shown in Figure 35. Governments are the main capital funders for government schools, with most jurisdictions reporting close to 100 per cent in government-funded capital expenditure. Most of this funding comes from state and territory governments, with the Western Australian, Queensland and Australian Capital Territory Governments providing a significantly greater proportion of capital funding compared to other jurisdictions.

Capital funding patterns are broadly similar across the Catholic and independent sectors, with about half of all capital expenditure funded by government sources, although this varies between jurisdictions. It is important to note that a large proportion of the investment in the non-government sector is from private sources.

Figure 34: Average capital investment per student in government schools, by jurisdiction (in 2008 dollars)



Source: MCEETYA, *National report on schooling in Australia, 2003 to 2008*.

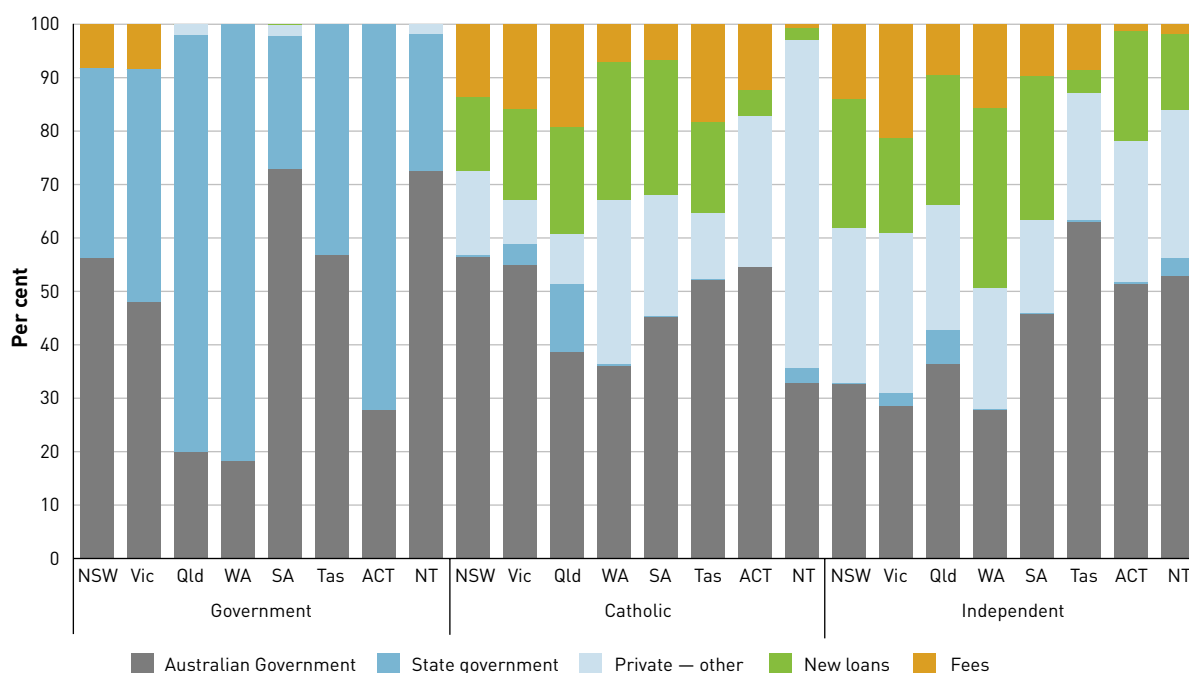
Figure 35 clearly shows that non-government schools have a range of sources from which they fund capital expenditure, whereas schools in the government sector are almost entirely reliant on public funding for capital works. Schools are also able to reallocate part of their recurrent income to meet capital expenses. The patterns of this are related to the amount of recurrent income received, school flexibility, and capital income from other sources, and vary by sector.

Cost drivers of capital

The cost drivers of capital vary significantly depending on characteristics, needs and priorities of the school community. For example, schools in rural and remote locations have both different costs and cost drivers. Boarding facilities and special schools also have individual needs. There is a need to meet regulatory requirements from local to national levels such as the *Disability Discrimination Act 1992*, the Building Code of Australia, safety and environmental standards, and requirements set by local councils.

The age of school buildings also impacts on maintenance costs. The older the capital stock becomes, the more expensive it is to maintain at a high standard, particularly if the building design is no longer applicable to a modern education environment. Additional costs may apply depending on the size and complexity of the school facilities. Schools with larger buildings and more diverse facilities, such as sporting grounds and specialist performing arts facilities, will often have larger utilities and maintenance costs.

Figure 35: Proportion of capital expenditure by funding source, 2009



Note: 'New loans' refers to funding from capital loan drawdowns. In the non-government sector, 'private—other' refers to funding from other private sources including retained earnings from previous years. In the government sector, 'private—other' includes fees.

Source: ACARA dataset 2011.

In addition, there are a range of cost drivers that relate to specific requirements of individual schools, including:

- upgrading and expanding existing facilities to meet the need for new student places
- creating modern teaching and learning spaces that utilise new technologies
- maintaining capacity and quality of school libraries
- maintaining boarding facilities for students
- maintaining facilities for students with disability
- curriculum offerings—for example trade-related courses and other specialist courses will cost more to deliver
- meeting the higher costs in small, remote and special needs schools
- the servicing of loans (particularly for non-systemic schools) for capital projects.

Is the level of investment right?

It is not yet possible to identify the correct level of investment in school capital based on the data available for a number of reasons. Firstly, there is limited understanding of the quality of infrastructure and facilities that are appropriate to support student outcomes. Secondly, nationally comparable data on capital expenditure has only recently been available at a school level through the *My School* website. Thirdly, there is limited understanding of the different cost drivers and costs associated with the provision and maintenance of school infrastructure and facilities.

The Building the Education Revolution Implementation Taskforce (BERIT) was established in April 2011 in response to issues relating to the implementation of the Building the Education Revolution National Partnership. To assist the BERIT to assess value for money in the BER projects, it developed the BER Cost Analysis Model (BER CAM) database. The BER CAM enabled the benchmarking of the costs of

building school infrastructure. DEEWR is currently undertaking a tender to identify a custodian for the database, that will be responsible for developing and maintaining the database so that it can be used as a cost benchmarking tool for school infrastructure projects.

There is a lack of data and public accountability in the current schooling system which makes it difficult for school communities to understand their capital funding rights and needs. The lack of data also makes it difficult for governments to understand and assess their funding objectives and priorities. The panel sees a strong need for national guidance on this issue and believes stronger arguments should be developed to justify the level of government expenditure.

2.4.5 Adequacy and quality of school infrastructure

A strong message coming from the submissions to the review was that in many schools, particularly government schools and non-government schools serving disadvantaged communities, infrastructure is not of high quality, and in some cases is clearly inadequate. This was cited as having a range of effects:

- The ability of government schools to be competitive with some non-government schools for enrolments can be compromised
- Schools are not able to offer education that will meet the national goals of schooling
- Not all students have access to the same range of educational opportunities
- Morale of students and teachers is adversely affected
- Students and teachers do not feel safe in the school environment
- School environments are not well tailored to local circumstances and could be better matched to educational need
- Community groups are not able to access the facilities.

Several submissions noted the lack of objective information about school infrastructure, and suggested that national infrastructure audits, or the development of a national assessment framework for school facilities standards, could be considered.

It is the panel's view that every teacher and student in Australian schools should have access to facilities that provide the basic necessities, such as space, and health and safety features. The panel also strongly believes it is crucial that teaching and learning environments are of sufficiently high quality to maximise the educational value and opportunities for all students. To date, there has been no clear national statement about what quality of facilities Australia expects for its schools. It is the panel's position that this should be developed and then used to assess whether schools are equipped to meet these expectations.

Definitions of adequacy

Adequacy and quality of infrastructure are difficult to assess because of the complex ways in which the physical environment of a school and educational value are linked.

Certain basic conditions are essential to provide an adequate teaching and learning environment, and many of these are already defined in state legislation and assessed as part of the registration of schools. This includes the provision of appropriate learning spaces for students and teachers, temperature control, health and safety features, and sanitary facilities. Some national standards also apply, such as the Disability (Access to Premises – Buildings) Standards. The BERIT also recommended that national standards around air conditioning and environmentally sustainable design be developed and applied.

More difficult to define is how the quality of infrastructure affects teaching and learning, and what additional features are required to deliver modern, world-class teaching and learning environments.

Table 18 summarises a number of recent approaches to defining the adequacy and quality of school infrastructure in Australia. These approaches highlight that there has been more of a focus on the measurable, physical characteristics of buildings, and that subjective assessments of the contribution to teaching and learning are used. Absent from this list is any national target standard stating what facilities we expect teachers and students to have access to.

Data about adequacy

Evidence about the state of the capital stock in Australian schools is patchy at best. A survey of non-government school infrastructure in Australia (DEST 2002) found that while most facilities in most non-government schools were at least adequate, additional expenditure was required for areas such as upgrading old stock, maintenance, and new construction to provide for basic and specialist facilities, as well as new schools. The Nous Group (2011) suggested that the aesthetics and facilities of a school have an impact on enrolments and its ability to compete in the schooling market. It was reported that one school region managed to reduce absentee rates and reverse enrolments decline by providing, as one of its core strategies, adequate and up-to-date infrastructure, including amalgamating and updating facilities.

While it is not possible to make a comprehensive and objective overall assessment of the adequacy of school facilities based on the data available, it is clear that many government schools, and some poorly resourced non-government schools, are suffering in terms of their facilities.

Table 18: Examples of possible approaches to defining the adequacy or quality of school infrastructure

Purpose	Definition
Survey of Non-government Schools Infrastructure in Australia 2000–01	The indicators assessed included sufficiency, condition and suitability of infrastructure. The sufficiency indicator was based on an assessment of area per student. Condition was based on a condition assessment which determined the cost of repair work, and its urgency in relation to continued operation of the school. Suitability looked primarily at building age and the availability of specialist facilities.
BERIT	BER projects were assessed for value for money based on quality, time taken to complete, and cost. The quality dimension included scores for fitness for purpose in terms of construction quality and compliance with relevant health and safety standards; meeting required design standards; and compliance with agreed scope. The scope for projects mandated prioritisation of libraries, halls, classrooms and refurbishment of existing works in that order.
Guidelines for BGAs	Decisions on funding proposals are to be made with regard to ‘appropriateness’ of the cost, size and use of the proposed facilities in relation to sound educational planning.
Victorian New Schools Registration Guide	A school’s buildings, facilities and grounds must comply with any laws that apply to the school including local laws and building, planning, and occupational health and safety laws. The educational facilities of a school must be suitable for the programs it offers and for students’ age levels.

Sources: BERIT 2011; DEEWR 2010; DEST 2002; Victorian Registration and Qualifications Authority 2011.

Finding 14

Poor-quality school infrastructure and facilities can contribute to a decline in enrolments in some schools.

There is no national standard against which the adequacy of school facilities can be assessed. Therefore, it is not clear whether all school facilities are appropriate to provide a high-quality 21st century education.

The adequacy of school facilities should be defined in terms of their educational value, and the definition should be flexible to take into account differences in educational needs between schools and changes over time.

2.4.6 The capital needs of existing schools

Maintenance and minor works

Maintenance and minor works are currently the responsibility of schools or the relevant school system to fund from their recurrent budgets. This category of expense includes costs related to school infrastructure which are not considered capital expenses, such as cleaning and grounds keeping, ad hoc and scheduled maintenance, minor ICT purchases and maintenance, minor equipment purchases, and minor facilities upgrades.

A number of submissions raised concerns around the extent to which needs relating to these issues are being adequately met, particularly in government schools and some independent schools. Strong anecdotal evidence suggests that many of these schools are poorly maintained, especially when compared to non-government schools more generally. The BERIT also noted a maintenance backlog in some schools, and observed the poor standard of some buildings.

Based on the limited information available, it is not possible to make firm conclusions about the extent of the problem nationally. Reporting of these costs is rolled in with that of other non-staff costs, such as consumables, so it is difficult to quantify and compare expenditure on maintenance between schools, sectors or jurisdictions. The absence of clear national definitions makes it difficult to define the appropriate standard to which facilities should be maintained, and to identify what would be an adequate level of funding for these costs. The cost drivers vary enormously between schools, as described above.

It is known from the research conducted by the review that the physical state of school buildings is a key factor in how a school is perceived, and therefore in the types of students and staff it may attract. Buildings that are fit for purpose are essential to maximise teaching and learning. Yet there are currently no processes in place to ensure that school facilities are monitored, and maintenance is kept up to date. The public does not have objective information about the quality of school infrastructure, and thus governments are not being held to account for their decisions in this area.

The panel notes the recommendation by the BERIT that DEEWR monitors the level of backlog of school maintenance, by education authority, and consider this in designing future capital spending programs. Although the panel considers that DEEWR may not be the most appropriate body for this task, it does believe there is a strong case for national leadership.

Major works

The Australian Government's Capital Grants Program has an important role in supporting non-government schools, particularly in addressing need in that sector. Funds are allocated to Block Grant Authorities based on a combination of student enrolments and need, with 40 per cent of the total annual funding pool allocated based on enrolment share, and 60 per cent allocated based on the proportion of Australian Government recurrent funding received by schools (DEEWR 2010). In addition, Block Grant Authorities are required to assess applications primarily on the basis of the relative educational disadvantage of students at the applicant schools. Secondary factors include the appropriateness of the cost, size and use of the facilities to be funded, the contributions of the projects to the program's objectives, the condition and suitability of existing facilities, the shared provision of educational services among schools, and the extent to which the school is making adequate and regular provision for the upkeep of its facilities.

As outlined above, state and territory governments approach major works in a variety of ways. The role of schools and school communities in infrastructure planning is unclear, and work undertaken by the BERIT highlighted the wide variation in school- and regional-level planning. School-level master planning was found to be strong in the non-government sector, but weak in the government sector. The BERIT recommended that government school systems review their approach to school master planning and engagement of school communities in this process.

The panel supports the current Capital Grants Program, but believes the equity and cross-sectoral planning requirements should be strengthened. More importantly, the panel considers that enforcement and reporting of these requirements must be strengthened, to give assurance that the equity objectives are in fact being achieved. In Chapter 2.3, the funding anomalies caused by Funding Maintenance arrangements have been discussed. These are replicated through the current allocation mechanism for the Capital Grants Program and this should be addressed, again to maximise the impact on equity.

The panel is convinced that government schools need additional funding, and better planning to bring their infrastructure up to a quality that at the very least enables them to effectively compete with some non-government schools. Rather than short-term initiatives, the Australian Government can best support this by extending the Capital Grants Program to the government sector. This should be accompanied by at least maintenance of current effort by state and territory governments. An appropriately defined funding application process and a guaranteed stream of funding could support stronger master planning in the government sector.

The program for both the government and non-government sectors should be driven by a clear definition of effective use of funding. As has been discussed, a clear definition is not straightforward, but broadly speaking characteristics of effective use of funding may include:

- funding supports equity objectives
- funding targets educational need and expenditure has educational value
- sectors work together to achieve mutually beneficial outcomes for communities
- funding is used efficiently and there is no duplication of services
- the cost of individual projects is in line with market price.

A structured role for the Australian Government in infrastructure funding needs to occur in partnership with the government and non-government school sectors, as it is important that the involvement of systems and school communities is maximised.

Finding 15

In order to address deficiencies in school- and regional-level planning, government and non-government school systems need to ensure that schools and their communities are more involved in the development and planning of school facilities to ensure that the best design outcomes are achieved.

The enforcement and public reporting against equity and educational objectives should ensure that the public investment into infrastructure and capital projects is being directed towards those schools that require the most assistance.

2.4.7 Future enrolment demands and new schools

Arrangements supporting new schools were raised by both government and non-government stakeholders as requiring not only additional funding but coordinated planning across the three schooling sectors.

For the Catholic and independent sectors, capital funding to support new schools in growth corridors and new student places in existing schools emerged as a key issue. A range of options were put to the panel on how these new places should be identified, funded and serviced. One proposal was that new school sites be allocated to a sector on the basis of current enrolment share, so that the existing enrolment distribution by sector is maintained. Another suggestion was that new sites and their management be determined based on historical and projected enrolment growth patterns. A range of strategies for compensating schools for establishment costs were also proposed, such as variations on loan subsidy schemes, and cost sharing between sectors.

There are currently no coherent and transparent institutional or regulatory arrangements in place at the state and territory or national level by which sectors can participate or convene to agree the best approach to school provision. Vickers (2005) claims that Australia is unusual in lacking clear mechanisms for adjusting the supply of school places to demographic demand, and argues that 'the current funding system has failed to coordinate the activities of public and private providers, leading to duplication of provision, reductions in economies of scale, and increases in per-student costs' (p. 264).

Each schooling sector has a different capacity for long-term planning based on their enrolment base and projections, their financial situation, and the cohesiveness in terms of organisational responsibilities and objectives. The government sector has the greatest capacity for long-term planning. Catholic systems also have capacity for planning. The independent sector has less capacity for collective planning, due to the size and diversity of the sector (Keating et al. 2011).

A lack of coordinated planning between sectors regarding new schools and enrolments can result in the inefficient use of capital resources and a duplication of effort. The Nous Group (2011) describes several case studies of regions where the school market has been affected by demographic change, and how this can lead to inefficiencies. It is often claimed that non-government schools are establishing new schools or expanding in areas where government schools have capacity to enrol students. While school choice is an important part of Australia's schooling system, there needs to be greater accountability and coordinated planning by all sectors around the use of public funds in the establishment of new schools.

A similar lack of planning arrangements existed prior to the development of the Australian Government's New Schools Policy in 1985. The Schools Commission advised a number of problems stemming from this, including:

- tensions in established areas resulting from the uncoordinated growth of new places in existing schools

- unclear roles of the Australian Government and the states and territories in the planning process
- inconsistencies in the rigour and extent of school registration requirements
- duplication of services absorbing resources which could be put to more efficient use (Wilkinson et al. 2006).

The Australian Government's New Schools Policy operated from 1985 to 1996 for prospective new non-government schools. For part of this time existing non-government schools were also subject to the policy if they were seeking to increase their maximum enrolment. The policy was a set of guidelines intended to promote 'planned educational provision', maximise resource use and limit the duplication of school services. The guidelines required prospective new non-government schools to demonstrate that no adverse effects would result for schools within the proposed area. The policy was abolished in 1996 based on a view that it limited educational choice and the establishment of a competitive schooling system (Wilkinson et al. 2006).

The panel does not consider that a restrictive 'New Schools Policy' is a viable solution to the current situation. However, it is clear to the panel that there must be some way of convening sectors, and ensuring that decisions to establish new schools, or to close or amalgamate existing schools, are based on sound planning for the future, are responsive to the needs of communities, and support the efficient universal provision of education. This is discussed further in Chapter 4.3.

Finding 16

Current planning processes are not sufficient in responding effectively to changing educational needs based on demographic and social change. There should be effective coordinated planning between schooling sectors and at the local area level.

There needs to be an improvement in the accountability and coordinated planning by all schooling sectors around the use of public funding in the establishment of new schools. Public investment in new schools should take into account the needs of the community and the facilities currently available for students.

2.4.8 Conclusion

Governments and the community invest a significant amount of funding into school buildings, facilities and infrastructure, yet the educational value of this investment is not well understood or recorded. It is the panel's view that there are a number of areas where capital funding should be strengthened to ensure that investment by governments is better directed towards those schools that require the most assistance.

It is clear that many schools are suffering from a lack of capital investment in their current infrastructure, which impacts on the morale of the school community, as well as its ability to compete with neighbouring schools for new students. All levels of government need to provide greater attention to addressing issues in these schools to ensure that the existing capital is at the very least adequate for delivering 21st century education.

In addition to addressing issues within existing schools, it is clear that better planning is required to ensure that new schools and school expansions are responsive to the needs of the community, but are also measured to ensure that new schools do not impact in a negative way on established schools within an area. The panel does not believe in restricting choice or competition but considers that the limited public investment available should be used in a way that enhances the educational outcomes for all students.

3 Equity and disadvantage

3.1 Equity in Australian schooling

Achieving greater equity in Australia's schooling system is central to the panel's remit—to provide recommendations that are directed towards achieving a school funding system that is transparent, fair, financially sustainable and effective in promoting excellent educational outcomes for all Australian students (see Appendix A—Terms of reference).

This chapter outlines the panel's definition of equity and considers the extent to which Australia's schooling system is achieving equity in educational outcomes. It discusses why equity in schooling is important and what role funding arrangements can play in achieving both a high quality and high equity schooling system.

The most successful schooling systems internationally are those where students achieve to the best of their ability, without their background or the school they attend impacting on their outcomes. As discussed in Chapter 1.2, Australia still has some way to go in achieving this. While we are achieving above the OECD mean in international assessments such as PISA, we are categorised as a system that is achieving only average equity, meaning the impact of student background on educational outcomes is stronger in Australia than it is in other OECD countries. The practical effect of this rating is that across Australia, students from disadvantaged backgrounds are consistently achieving educational outcomes lower than their peers.

The panel strongly supports the idea that demography must not equal destiny and is of the view that Australia must do better to ensure genuine equality of educational opportunity for every child.

3.1.1 Defining equity

The panel has defined equity in schooling as ensuring that differences in educational outcomes are not the result of differences in wealth, income, power or possessions. Equity in this sense does not mean that all students are the same or will achieve the same outcomes. Rather, it means that all students must have access to an acceptable international standard of education, regardless of where they live or the school they attend.

Central to the panel's definition of equity is the belief that the underlying talents and abilities of students that enable them to succeed in schooling are not distributed differently among children from different socioeconomic status, ethnic or language backgrounds, or according to where they live or go to school. Caldwell and Spinks (2008) found that all children are capable of learning and achieving at school in the right circumstances and with the right support. The panel supports this view.

Ensuring that all Australian children, whatever their circumstance, have access to the best possible education and chance to realise their full potential can also be considered the moral imperative of schooling. In countries such as Australia, this moral imperative goes beyond the legal obligation of governments to provide the opportunity for schooling for all children that is secular, compulsory and free. Governments must also, through addressing the facets of disadvantage, ensure that all children are given access to an acceptable international standard of education necessary to lead successful and productive lives.

The panel's definition of equity is consistent with the definition adopted by the OECD in a recent study on equity in education. According to Field, Kuczera and Pont (2007), equity in schooling involves both fairness and inclusion. Fairness implies that personal and social circumstances are not an obstacle to achieving educational potential. Inclusion is about ensuring a minimum standard of education for all. Fairness and inclusion have been central to the panel's considerations of equity.

The panel's focus on improving the equity of Australia's schooling system aligns with the broader schooling reform agenda agreed to by all Australian governments. The Melbourne Declaration goal that Australian schooling promotes equity and excellence for all students points to the three schooling sectors achieving more equitable outcomes for disadvantaged students (MCEETYA 2008). The National Education Agreement reinforces this goal, and sets out a number of outcomes and performance indicators for Australian schooling. Among these outcomes are that young people are meeting basic literacy and numeracy standards and overall levels of literacy and numeracy are improving, and schooling promotes social inclusion and reduces the educational disadvantage of children, especially Indigenous children.

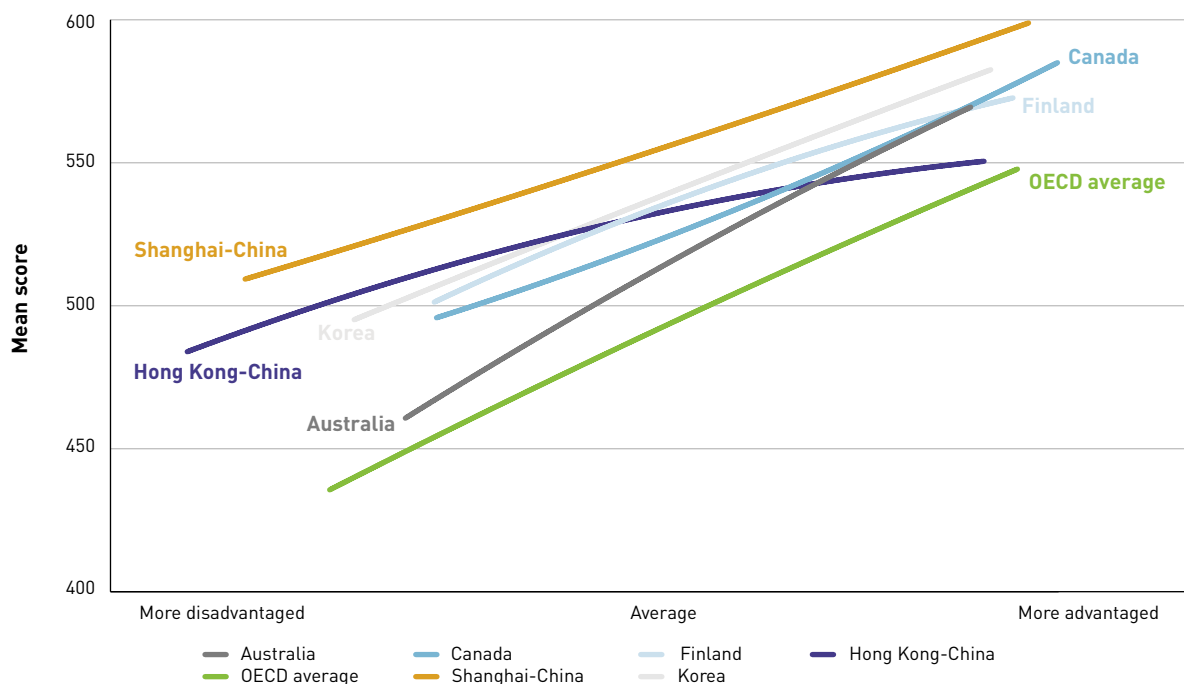
The panel acknowledges the important role of all sectors in achieving greater equity in Australia's schooling system, and in realising the aspiration that differences in educational outcomes are not the result of a student's background or circumstance.

3.1.2 Equity in Australian schooling

For the 2009 PISA cycle, despite being among the top-performing countries overall, Australia was classified as a country achieving only average equity. This means that the link between student background and educational outcomes is more pronounced in Australia than in other comparable high-performing OECD countries. Significantly, five out of the six countries that outperformed Australia in the 2009 PISA assessment maintain systems that have a higher degree of equity than Australia's. Figure 36 shows the relationship between PISA reading literacy scores and social background for Australia and these other high-performing countries. All have a lower social gradient than Australia (illustrated by a flatter line), which is indicative of a weaker relationship between the social background of students and their educational outcomes.

It should be noted that Australia's classification as achieving average equity in the 2009 PISA assessment is actually an improvement on its classification in 2000, where Australia was classified a low-equity country. However, research suggests the reason for this improvement is that a smaller number of students from high socioeconomic backgrounds are performing at the highest proficiency levels, that is, there has been a reduction in performance at the top end (COAG Reform Council 2011). In addition to supporting the performance of educationally disadvantaged students, Australia must continue to focus on maintaining the performance of its highest achieving students. Australia cannot afford to improve its social gradient line at the expense of lowering the performance of these students.

Figure 36: Social gradients in PISA reading literacy by country, 2009



Source: Reproduced from COAG Reform Council 2011 (Figure 3.4, p. 35), using OECD, PISA 2009 data.

Although no country has been able to completely remove the impact of social background or circumstances on a student’s performance in school—and it may not be realistic to aim to do so—it is clear that some countries are doing a better job of minimising these effects than Australia.

Research shows that high-achieving and high-equity schooling systems typically invest in building quality and capability in school leaders and teachers. Strategic and systematic approaches are also typically in place to attract, develop, and retain the most talented teachers, and to make sure skilled teachers serve students of all socioeconomic backgrounds (Auguste, Kihn and Miller 2010). Countries such as Finland have sought to continually improve their schooling systems through innovative approaches to learning. These approaches include adapting family support services, creating new kinds of schools, and seeking to use new technologies to promote learning (Leadbeater and Wong 2010).

It is clear that there is considerable scope for Australia to reduce the influence of student background on educational outcomes. Shifting Australia’s social gradient line more closely to a country like Canada would constitute a major improvement in the equity of educational outcomes. Research commissioned by the panel indicates that a focus on shortening Australia’s ‘underperforming tail’ by 10 per cent would bring it halfway to closing the performance gap with Canada (The Nous Group 2011).

3.1.3 Why equity is important

As discussed in Chapter 1.2, the broader benefits of education are significant for individuals, communities and economies. Beyond these benefits, there are a range of reasons why a highly equitable schooling system is desirable.

Maintaining a fair and inclusive education system is one of the most powerful levers available to make society more equitable (Field, Kuczera and Pont 2007). There is also a human rights imperative for all people to be able to develop their capacities and participate fully in society. The long-term social and

financial costs of not maintaining a fair and inclusive education system are also high, in that people without the skills to participate socially and economically generate higher costs for countries (Field, Kuczera and Pont 2007; The Nous Group 2011). Individuals that fail to acquire basic competencies early on are more likely to require additional (and potentially expensive) intervention in later years, and are also at higher risk of not attaining a Year 12 or equivalent qualification. Individuals with lower education levels typically have higher unemployment risks and less stable jobs (Field, Kuczera and Pont 2007).

The OECD maintains that the major focus of education policy should be to foster high overall levels of student achievement, while limiting the influence of student background on learning outcomes and achieving a high level of equity. They argue that inequity in education systems is problematic because it demonstrates a failure to fully capitalise on the cognitive potential of students (OECD 2007).

Evidence shows that strengthening equity in education can be cost beneficial. International research shows that returns to educational investments are higher in early, primary and secondary education, due to their effects on facilitating later learning and participation in the workforce. It also shows that the returns to educational investments are particularly high for children from disadvantaged backgrounds, whose home environments may not provide them with the foundation skills necessary to prosper at later educational stages (Woessmann 2008 cited in OECD 2011d). Chiu and Khoo (2005) argue that the law of diminishing marginal returns can be applied to schooling, whereby additional money invested is likely to increase the outcomes of a student from a low socioeconomic background more than one from a high socioeconomic background.

This research demonstrates that investing as early as possible in high-quality education for all students, and directing additional resources towards the most disadvantaged students, is a cost-efficient strategy that will have the greatest impact on improving overall performance.

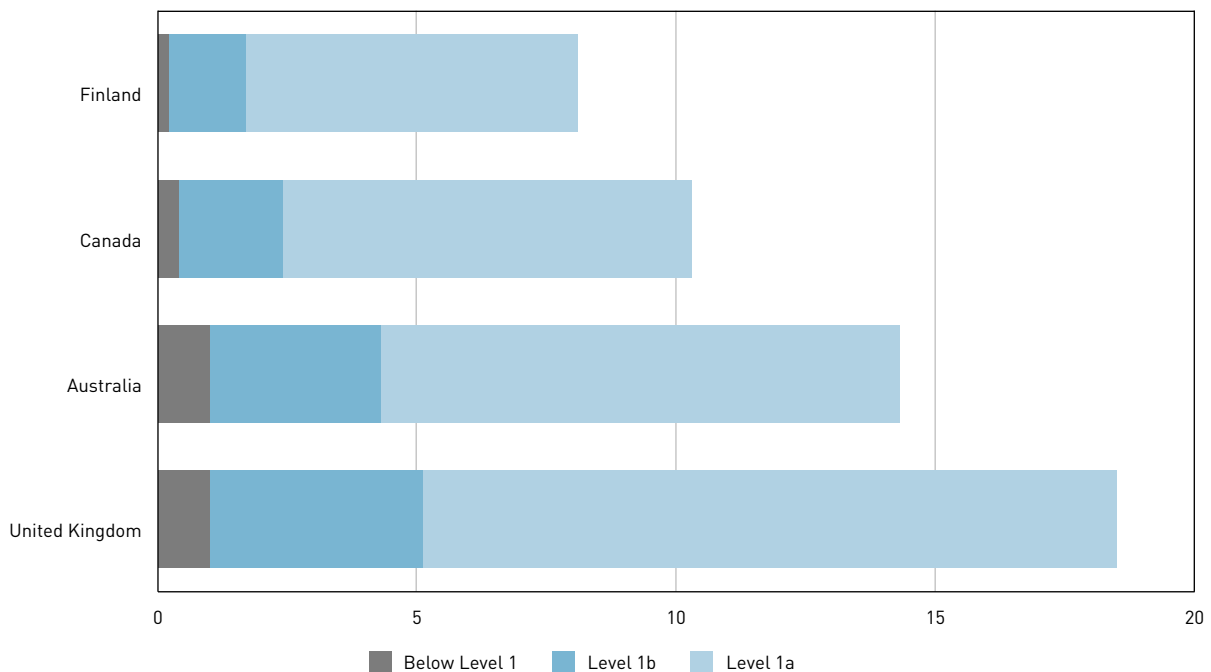
3.1.4 What we are seeking to achieve

The primary aim of this review is to ensure schools are appropriately resourced to provide an internationally acceptable standard of education for all students. Over and above this the panel has identified a clear focus on achieving greater equity in Australia's schooling system by ensuring that schools are appropriately resourced to cater for the individual and collective needs of disadvantaged students.

In order to achieve greater equity Australia must place emphasis on addressing current underperformance in the most disadvantaged schools. Australia must focus on lifting the performance of students at the tail end. Much of the current underperformance is a result of factors associated with student background. Australia also has a high concentration of disadvantaged students in certain schools, with a large number of the most disadvantaged schools in the government sector (see Chapters 1.1 and 3.2). It is these disadvantaged students and schools that must be targeted if the equity of educational outcomes is to be improved.

Figure 37 shows that in 2009, 14 per cent of Australian students failed to meet the PISA baseline proficiency level in reading literacy (Level 2). Further, in the government sector some 19 per cent of all government school students failed to meet this baseline (The Nous Group 2011). These students failed to acquire the most basic reading literacy skills considered necessary to participate successfully in future schooling and life. As outlined above, this can have significant consequences for the individuals involved, but also significantly, demonstrates that our education system is failing to fully capitalise on the cognitive potential of these students.

Figure 37: Percentage of underperforming students in PISA reading literacy, 2009



Note: Graph represents proportion of students not achieving the proficiency baseline in PISA reading literacy 2009 (Level 1 or below). Level 1a = from 334.75 to less than 407.47 score points. Level 1b = from 262.04 to less than 334.75 score points.

Source: Reproduced from The Nous Group 2011, *Schooling challenges and opportunities*, Figures 7 and 32, using OECD, PISA 2009 data.

3.1.5 The role of funding arrangements in achieving greater equity

The structure of schooling systems and school funding arrangements can facilitate, or hinder, equity. Field, Kuczera and Pont (2007) suggest that in order to promote equity, expenditure in education should be targeted to schools most in need of support within a schooling system, so that minimum standards of achievement are met everywhere. They also suggest that funding arrangements should promote transparency and accountability by funding recipients, particularly government and non-government school systems, for the allocation of resources so that the impact of addressing inequity and improving educational outcomes can be measured.

While funding arrangements play a critical role in improving equity in educational outcomes, allocating the right level of resources in the right places is only part of the challenge. Of equal importance is ensuring that additional resources are used in the most educationally effective ways. The key to achieving greater equity in schooling therefore lies not only in an increased investment in disadvantaged schools and students, but also in ensuring additional resources are used to employ strategies in a comprehensive, integrated and sustainable manner. These strategies will be discussed in more detail in Chapter 3.4.

3.1.6 Conclusion

While Australia is considered to be a high-performing country, the impact of student background on educational outcomes is stronger in Australia than in other OECD countries. The cost of this inequity is high; both for individuals who are failing to reach their potential and for the nation as a whole. Countries such as Finland and Canada demonstrate it is possible to maintain a high-performing and high-equity schooling system. International evidence confirms that targeted investment in disadvantaged students is the most cost-efficient way to improve the overall equity of educational outcomes being achieved by a country. Australia must strive to achieve greater equity in its schooling system, and ensure that demography does not equal destiny for students.

In Part 4 of this report, the panel outlines funding arrangements that aim to ensure that all Australian children have access to an internationally acceptable standard of education, regardless of their background or the school they attend. Over and above this, the panel's proposed funding arrangements aim to steadily, over time, reduce the relationship between student background and educational outcomes and improve the overall equity of educational outcomes in Australia.

Finding 17

New funding arrangements for schooling should aim to ensure that:

- differences in educational outcomes are not the result of differences in wealth, income, power or possessions
- all students have access to a high standard of education regardless of their background or circumstances.

3.2 The impact of disadvantage on outcomes

This chapter discusses the factors of disadvantage that have been proven to have a significant impact on educational outcomes in Australia. It also discusses the individual, compound and concentrated effects of disadvantage, and how these have been key considerations for the panel in developing its new funding model.

As demonstrated in Chapter 3.1, the relationship between student background and educational outcomes is stronger in Australia than in other OECD countries with high-performing schooling systems. Over and above ensuring that all schools are appropriately resourced to provide an internationally acceptable standard of education for all students, the panel has identified a clear focus on achieving greater equity in Australian schooling. In order to achieve greater equity, schools must be appropriately resourced to cater for the individual and collective needs of disadvantaged students and be empowered and enabled to use these resources effectively.

Factors of disadvantage

Research and data confirm that there are five factors of disadvantage that have a significant impact on educational outcomes in Australia. At the student level these factors are socioeconomic status, Indigeneity, English language proficiency, and disability. At the school level, remoteness is demonstrated to have an impact on student outcomes.

While there are other groups of young people that may also experience educational disadvantage, the available evidence supports a focus on these five factors. Representations and submissions to the review also supported a focus on these groups of students.

Historically, Australian Government and state and territory government funding arrangements for schooling have provided additional resources for identified 'equity groups'. However, increasingly sophisticated data available at the state and territory level on student characteristics and outcomes are demonstrating that not all members of traditional equity groups are equally disadvantaged in an educational sense. The availability of these data means there are now better ways of identifying and defining students and schools in need of extra assistance. In order to develop funding arrangements that will steadily reduce the relationship between student background and educational outcomes, the panel set out to better understand the complex interactions between these factors.

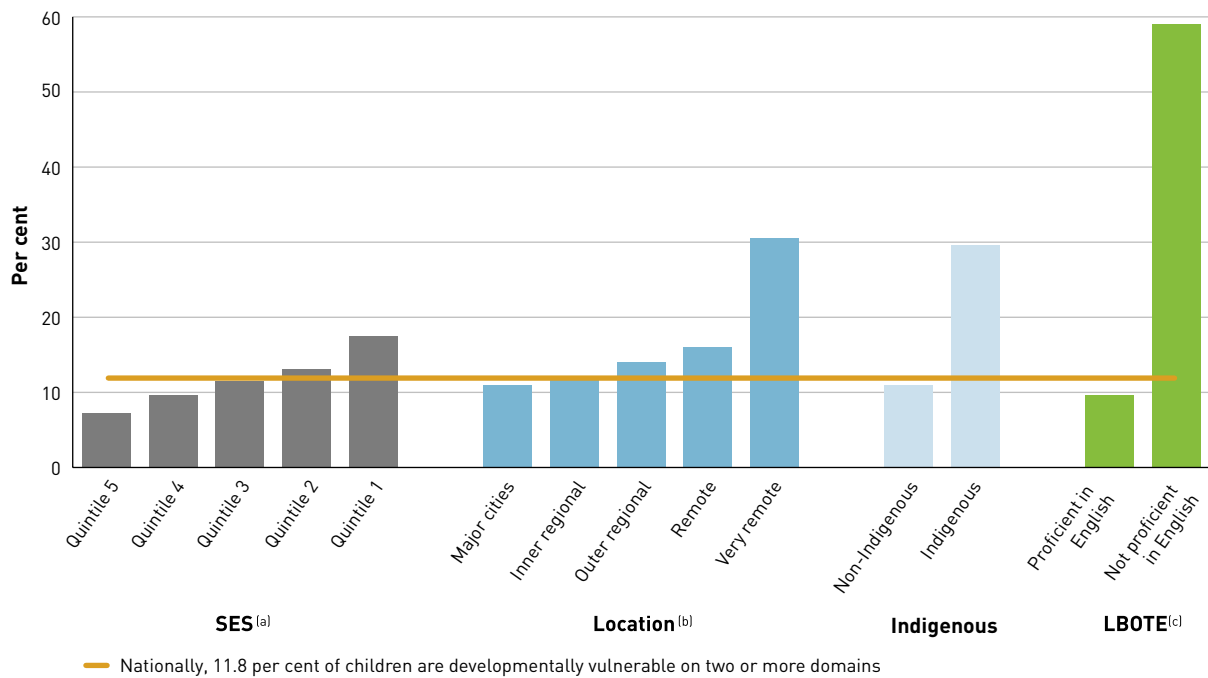
There are large variations in student outcomes within the types of disadvantage set out above as well as complex interactions between them, both at the individual and school level. For example, there is enormous variation in individual performance across measures of socioeconomic status. There is a correlation between students' socioeconomic background and their performance, but not all students fit the trend. In terms of interactions between factors of disadvantage, many students experience multiple factors, sometimes referred to as compound disadvantage. These students are at an even higher risk of poor academic performance, and require more intensive support to reach their full educational potential.

There is also a growing body of evidence that demonstrates that the composition of a school's population has a significant impact on the outcomes achieved by all students at the school. This is particularly significant in Australia in light of evidence that some parts of the schooling system are becoming increasingly stratified according to socioeconomic status.

Disadvantage and school readiness

Children arrive at school with existing differences in learning capabilities and levels of preparedness. The Australian Early Development Index (AEDI) is a population measure of young children’s development. It measures five key areas of early childhood development which are closely linked to the predictors of good adult health, education and social outcomes: physical health and wellbeing, social competence, emotional maturity, language and cognitive skills, and communication skills and general knowledge (Centre for Community Child Health and Telethon Institute for Child Health Research 2009).

Figure 38: Proportion of children developmentally vulnerable on two or more AEDI domains



(a) Based on the ABS Socio-Economic Indexes for Areas.

(b) Based on the ABS Australian Standard Geographical Classification Remoteness Areas.

(c) For the AEDI, children are considered LBOTE if they speak a language other than English.

Source: Centre for Community Child Health and Telethon Institute for Child Health Research 2009.

AEDI data confirm that educationally disadvantaged students are more likely to be developmentally vulnerable when they arrive at school than their peers. Figure 38 shows that children living in the most socioeconomically disadvantaged and remote Australian communities, as well as Indigenous children and children who are not proficient in English, are far more likely to be developmentally vulnerable on two or more of the AEDI domains. Children who are developmentally vulnerable on two or more of the AEDI domains are also more likely to have difficulty learning (Hart, Brinkman and Blackmore 2003).

Evidence supports the importance of early intervention to help these students as it is more effective to address underperformance early, before poor academic performance becomes entrenched. Therefore, strategies to address educational disadvantage in schools must be integrated with approaches to support early childhood development, to help ensure that disadvantaged students arrive at school with the skills and capabilities they require to participate in schooling.

Finding 18

Strategies to address educational disadvantage in school are most effective when integrated with, and complementary to, approaches to support early childhood development.

3.2.1 Low socioeconomic status

An increasing body of literature examining the relationship between education and socioeconomic status demonstrates that it is a key factor shaping the educational outcomes of Australian students. It is important to note there is currently no nationally consistent approach to identifying these students (see Box 6).

Box 6: Measuring the socioeconomic status of students

There are different ways that socioeconomic status can be measured, whether it is a single indicator, or combining several indicators to form an index. The socioeconomic status of dependent school-aged children is derived by the socioeconomic characteristics of their parents, including parental occupational status, parental education and family wealth or income.

Internationally, PISA measures the socioeconomic background of students from all participating countries using an index of economic, social and cultural status. The index is based on student responses to questions about a student's family and home background. Using this index, participating students are distributed into quartiles of socioeconomic background representing a scale of relative disadvantage (bottom quartile) through to relative advantage (top quartile).

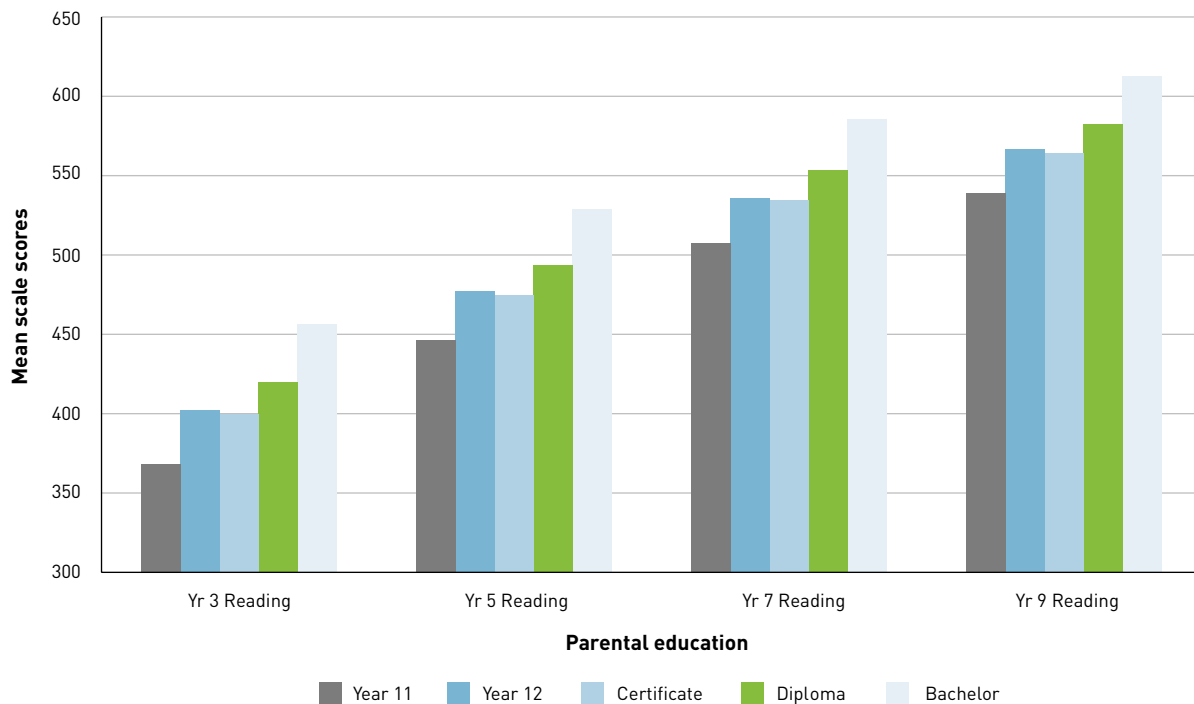
In Australia, the ICSEA provides a scale that represents the influence of a number of factors associated with students' family backgrounds on their educational outcomes. ICSEA values are reported for schools on the *My School* website, to allow comparisons to be made in terms of NAPLAN results between schools serving similar student populations (see Box 5, Chapter 2.3).

The socio-educational advantage (SEA) measure reflects the socio-educational background of students. It is calculated using components of the ICSEA, and is based on the parental occupation and education status of parents. The *My School* website shows the distribution of students in a school across four SEA quarters, representing a scale of relative disadvantage (bottom quarter) through to relative advantage (top quarter).⁴

The COAG Reform Council's report for 2010 on progress towards meeting the National Education Agreement targets found that the performance of students from low socioeconomic backgrounds continues to be of concern (COAG Reform Council 2011). Achievement in NAPLAN from 2008 to 2010 demonstrates that lower levels of parental education are strongly and consistently associated with lower student performance, and this holds across all the year levels tested (Years 3, 5, 7 and 9). This relationship is illustrated in Figure 39. Based on these data, parental attainment of a Year 12 or equivalent qualification seems to be a threshold qualification, below which the reading and numeracy achievement of students is significantly lower.

⁴ The *My School* website reports SEA quarter data for schools covering 98 per cent of all students. However, depending on the availability and quality of the data, it may come from different sources. Due to data collection issues, the panel acknowledges that there are some limitations when using the SEA at an individual school level.

Figure 39: Achievement in NAPLAN 2010 reading by parental education



Source: ACARA 2010b, *NAPLAN achievement in reading, writing, language conventions and numeracy: National report for 2010*.

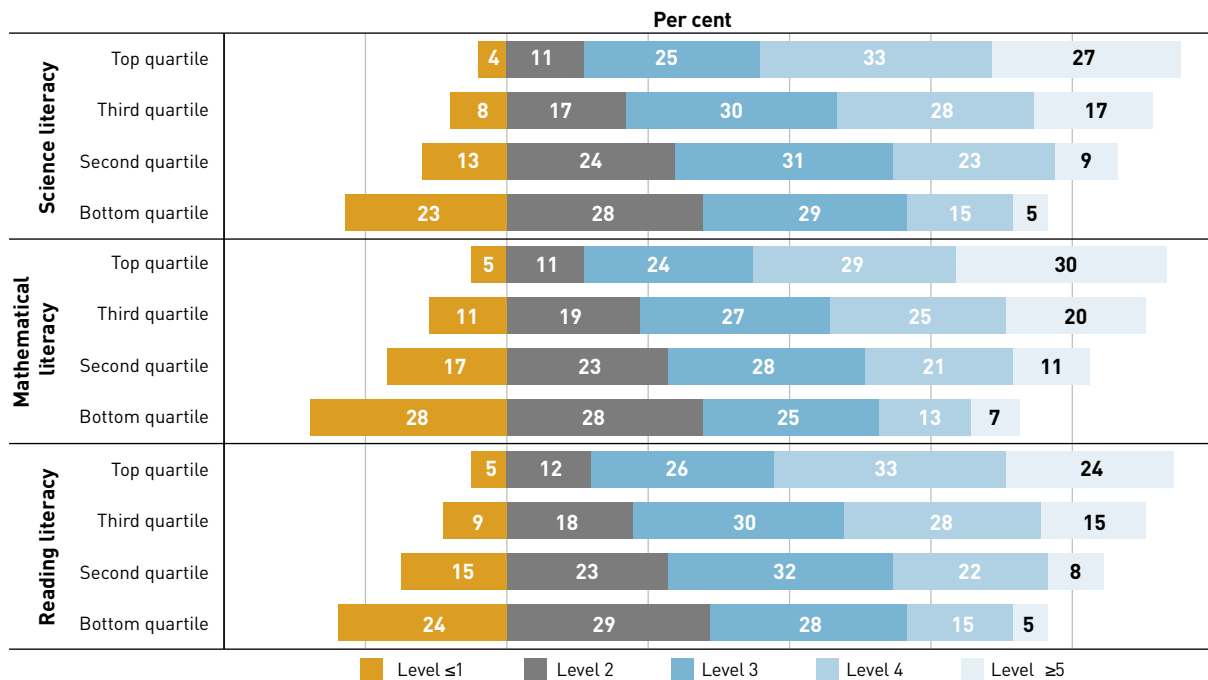
Results from the 2009 PISA assessment indicate that across all literacy domains, the higher the level of student socioeconomic background, the higher the student performance. Figure 40 demonstrates that that one in four Australian students from the lowest quartile of PISA's index of economic, social and cultural status performed below the proficiency baseline across each of the PISA domains (Thomson et al. 2011). This confirms that students from low socioeconomic backgrounds are disproportionately represented in Australia's 'underperforming tail'.

Further, in relation to the reading literacy domain, the gap between Australian students from the highest and lowest economic, social and cultural status quartiles was found to be equivalent to almost three years of schooling. In addition, the average performance of Australian students from the lowest quartile is significantly lower than the OECD average (Thomson et al. 2011).

Low socioeconomic status also has an impact at the post-school level, with students from lower socioeconomic backgrounds being less likely to attain a Year 12 or equivalent qualification. In 2009, Year 12 attainment rates for students from low and medium socioeconomic backgrounds were 56 and 62 per cent respectively, compared to 75 per cent for students from high socioeconomic backgrounds (Steering Committee for the Review of Government Service Provision 2011b). Students from low socioeconomic backgrounds are also less likely to attend university (Bradley Report). In 2010, the university access rate⁵ for students from low socioeconomic backgrounds was around 17 per cent, compared with 35 per cent for students from high socioeconomic backgrounds (DEEWR 2011b).

⁵ Access rates refer to the proportion of a certain equity group of the total number of students commencing university.

Figure 40: Proficiency levels in PISA reading, mathematical and science literacy in Australia by ESCS, 2009



Source: Reproduced from Thomson et al. 2011, using OECD, PISA 2009 data.

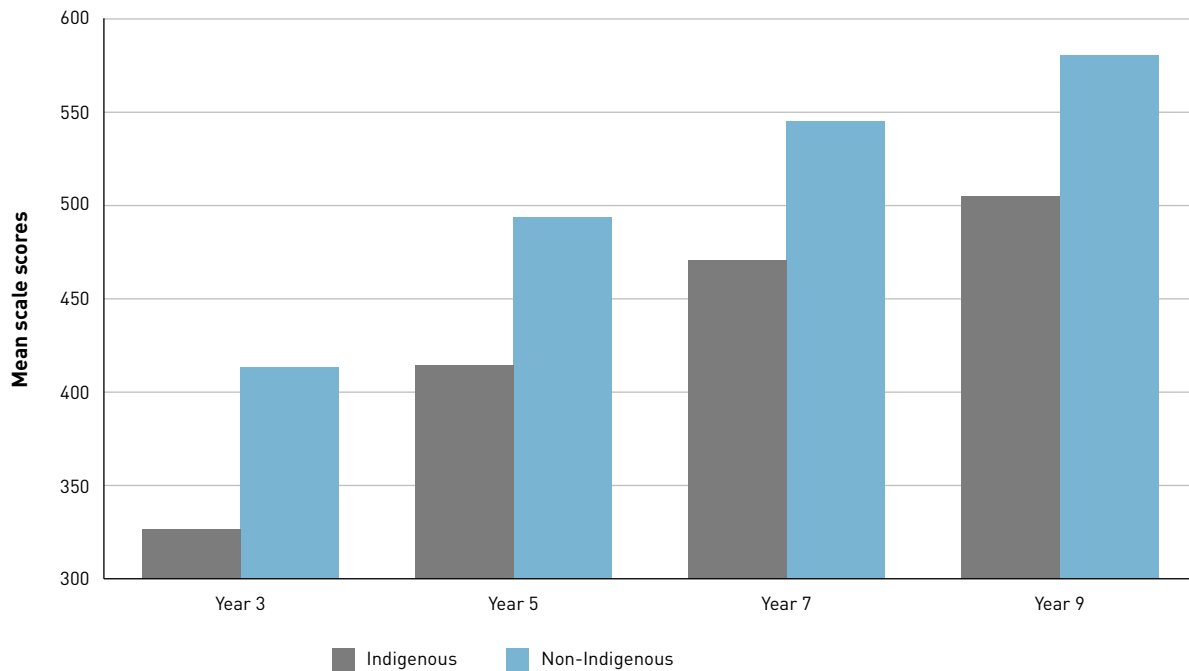
3.2.2 Indigeneity

Closing the gap in the health, education and employment outcomes of Indigenous and non-Indigenous Australians has been a central policy aim of successive governments over many years. Under the National Education Agreement, all governments have committed to halving the gap for Indigenous students in reading, writing and numeracy within a decade, and at least halving the gap for Indigenous students in Year 12 attainment rates by 2020 (see Chapter 1.2). The Aboriginal and Torres Strait Islander Education Action Plan 2010–2014 outlines a framework of outcomes, performance indicators and actions to improve educational outcomes and achieve these targets.

While early evidence suggests that these initiatives are having some success, progress is being made slowly and is not consistent across the states and territories. In their 2010 progress report, the COAG Reform Council (2011) indicated it may be difficult to meet targets set out in the National Education Agreement given some states and territories failed to meet their progress points in each domain and year.

2010 NAPLAN data confirms that across all year levels, on average, Indigenous students achieve lower mean scores than their non-Indigenous peers, as illustrated in Figure 41.

Figure 41: Indigenous and non-Indigenous student NAPLAN performance, Years 3, 5, 7 and 9, 2010



Note: Mean scale score refers to achievement across the five NAPLAN domains of reading, writing, spelling, grammar and punctuation, and numeracy.

Source: Adapted from MCEECDYA 2011b, using data from ACARA 2010b.

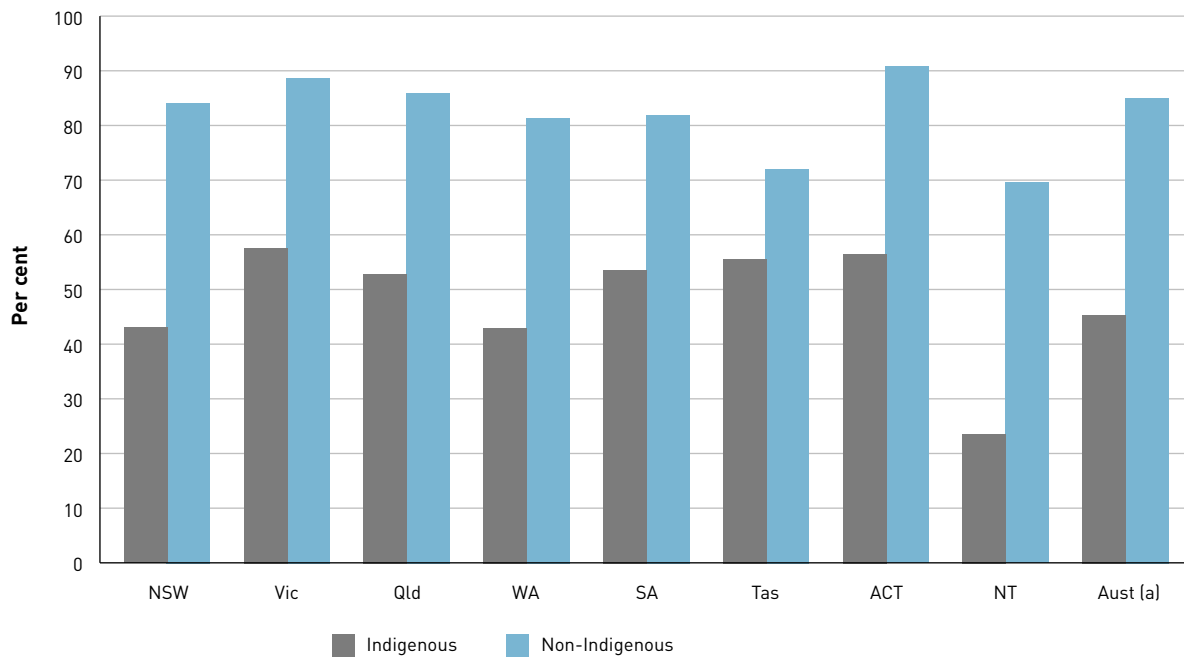
2009 PISA results also confirm that the mean outcomes of Indigenous students are significantly lower than their non-Indigenous peers, and are also lower than the OECD average. The difference in mean scores between Indigenous and non-Indigenous students was estimated to be equivalent to approximately two full years of schooling (Thomson et al. 2011).

A significant factor contributing to these outcomes is that Indigenous students continue to experience lower-than-average attendance rates in all year levels and across all sectors (COAG Reform Council 2011). In some states and territories the gap can be as large as 21 percentage points in primary school years and 30 percentage points in secondary school years. Between 2007 and 2010, Year 10 Indigenous school attendance rates declined in all states and territories and there were no improvements in Years 8 and 9 (COAG Reform Council 2011).

Research consistently demonstrates that attendance is a major influence on Indigenous student academic achievement, particularly if the level of attendance is below 90 per cent, meaning students are absent from school more than one day in a fortnight (Zubrick et al. 2005, cited in Purdie and Buckley 2010).

Indigenous Australians also continue to have lower rates of Year 12 or equivalent attainment. In 2008, around 45 per cent of 20 to 24 year-old Indigenous people attained a Year 12 or equivalent qualification, compared with 85 per cent of non-Indigenous Australians, as illustrated in Figure 42.

Figure 42: Proportion of the 20 to 24 year-old population with Year 12 or equivalent attainment, by Indigenous status, by state and territory, 2008



[a] Australia includes 'other territories'.

Source: Reproduced from COAG Reform Council 2010a, *National Education Agreement: Performance report for 2009* (Figure 7.6, p. 96), using ABS 2008, *Education and Work, Australia*, May 2008, cat. no. 6227.0; ABS 2009, *National Aboriginal and Torres Strait Islander Social Survey, 2008*, cat. no. 4714.0.

There are also large differences in Indigenous Year 12 attainment levels across jurisdictions, with 58 per cent of Indigenous students achieving Year 12 or an equivalent qualification in Victoria, compared with only 24 per cent in the Northern Territory. Indigenous Australians are also vastly under-represented in higher education (Bradley Report). In 2010, of all commencing university students, only 2 per cent were Indigenous (DEEWR 2011b).

3.2.3 English language proficiency

Traditionally, LBOTE students have been considered an equity group requiring additional resources within Australia's schooling system. However, recent evidence confirms that not all LBOTE students can be considered educationally disadvantaged.

NAPLAN and PISA results demonstrate that there is a high degree of variability, with some students achieving well and some performing poorly. Performance within this group differs depending on the language background of the students, and is also strongly influenced by level of English language proficiency (see Box 7).

Box 7: Measuring disadvantage within the LBOTE category

According to the MCEECDYA nationally agreed definition, students classify as LBOTE if the language spoken at home by the child is not English, or if one or both parents speak another language at home. Not all LBOTE learners have English language needs. Some of these students were born in Australia, or came at a young age, and have developed native speaker proficiency in English. The limitations of the LBOTE definition as a measure of educational disadvantage are generally acknowledged. It is deficient in the extent to which it masks the complexity of language background, culture and ethnicity and its effects on schooling outcomes.

'English as a second language' (ESL) is a narrower term and forms a subset of LBOTE students. ESL students are students whose first language is not English and who speak a language other than English in the home. ESL students are more likely to experience disadvantage in the Australian education context where curriculums are generally taught in English.

In April 2009, MCEECDYA asked ACARA to develop a LBOTE measure that better identifies student need. ACARA's modelling showed that there is considerable variation in performance across the different language groups within the LBOTE community. It also showed that students who performed poorly were more likely to have parents who had lower school education levels. As a result, an additional variable, the percentage of parents in the school community who were both LBOTE and completed to Year 9 or equivalent, was included in the calculation of the 2010 ICSEA values. This additional variable is referred to as the 'disadvantaged LBOTE' variable (ACARA 2011).

While it is generally acknowledged that ACARA's disadvantaged LBOTE variable is not a perfect measure of need within the broader LBOTE category, it is the only nationally consistent measure currently available. At the state level, jurisdictions are better able to measure English language proficiency within the LBOTE category based on their own data collected through enrolment processes, annual ESL surveys and classroom assessments.

As outlined above, there is a growing body of evidence available at the state level that paints a clearer picture about which students within the broader LBOTE group are at the highest risk of poor performance. According to student data collected by state and territory education departments at the time of enrolment, the strongest predictor of poor performance within the LBOTE category is a lack of English language proficiency.

Analysis undertaken by the New South Wales Department of Education and Communities (NSW DEC) illustrates this point. NSW DEC investigated the impact of three indicators within the broad LBOTE category on educational outcomes, including: level of English proficiency (broken down into three phases); refugee status (as determined by residency status and visa subclass as declared at the time of enrolment); and length of time in an Australian school (determined by the first entry date in an Australian school, as declared at the time of enrolment).

The results of this analysis show that in New South Wales, after controlling for the effect of students' parental background and school-level effects, LBOTE students with limited English language proficiency experience twice the level of disadvantage as those who are refugees or who are Indigenous. However, by far the most disadvantaged group are refugee students who have limited English language proficiency and have been in an Australian school for more than one year (NSW DEC 2011a), as illustrated in Figure 43.

Figure 43: Impact of LBOTE-related measures on 2009 NAPLAN results

Key disadvantaged groups	Relative effect	Impact on average NAPLAN results (in bands)
Indigenous	-0.443	3 quarters of a band
Refugee	-0.463	3 quarters of a band
ESL Phase 1	-0.901	1 and a half bands
Refugee, ESL Phase 1 and newly arrived	-1.807	3 bands

Source: Reproduced from NSW DEC 2011a, *NSW Department of Education and Communities discussion paper: Australian school funding arrangements* (p. 9), using NAPLAN 2009 data and 2009 enrolment data.

This finding is consistent with the AEDI data presented at the beginning of this chapter, which demonstrate that 94 per cent of children who have LBOTE status and are not proficient in English are developmentally vulnerable on one or more of the AEDI domains, and 59 per cent are developmentally vulnerable on two or more (Centre for Community Child Health and Telethon Institute for Child Health Research 2009).

3.2.4 Students with disability

While students with disability often require additional assistance to access and participate in schooling, there are significant differences in the educational needs of students within this cohort. This is a reflection of the diverse range of students with disability, as well as the diverse way in which disability manifests itself.

In 2010, there were around 172 300 students who met state and territory eligibility criteria for receiving disability funding, representing 4.9 per cent of total student enrolments. There are differing percentages of funded students with disability in each state and territory (between 3 and 8 per cent), which is largely due to differing definitions, with some definitions adopted by states and territories broader than others (Steering Committee for the Review of Government Service Provision 2011b). The 2009 survey data shows that 8.8 per cent of people in Australia aged 5 to 14 years had a disability, based on a broader definition of disability (ABS 2010a).

Most funded students with disability attend mainstream schools. It is estimated around 9 per cent of students with disability aged 5 to 14 years attend special schools (AIHW 2006). There are currently 416 special schools, 332 of which are government schools (ABS 2011c).

Box 8: Key policies relating to people with disability in Australia

Australian school systems and individual schools are required to comply with the *Disability Discrimination Act 1992* which provides protection against discrimination based on disability and requires that students with disability receive the same educational opportunities as everyone else. The Disability Standards for Education (DSE), introduced in 2005, set out the roles and responsibilities of education providers in meeting the requirements of the Act.

Under the DSE, education providers are required to make 'reasonable adjustments' to ensure that students participate in schooling on an equal basis to other students. Reasonable adjustment is defined under the DSE as educational delivery or support that differs from what is provided to meet the normal needs of a student of that age or level. In determining the particular adjustments that are reasonably required, education providers must consider the nature and impact of the student's disability and how it affects the student's ability to participate, while balancing the interests of all parties affected, including the student with disability, the education provider, staff and other students. A review of the DSE is currently underway and expected to be complete by the end of 2011.

Australia also has a National Disability Strategy in place, which is overseen by COAG and specifies that increasing the educational outcomes of students with disability, including the Year 12 or equivalent attainment rates, is a priority for all Australian governments. The National Disability Strategy identifies learning and skills as an area of policy action, including strengthening the capability of all education providers to deliver inclusive high-quality educational programs and a focus on reducing the gap between students with disability and other students.

As outlined above, education providers in all sectors are required by law to make reasonable educational adjustments for students with disability so that they can participate in schooling on the same basis as students without disability (see Box 8). There are significant differences in the levels of adjustment required for students with disability. Not all disabilities limit the educational achievement of students. Some students with disability may not require any adjustment. Other students, with minor or more significant educational adjustment, can achieve the same outcomes as students without disability.

However, there are some children who have complex support needs and whose development or physical health may impact on the outcomes that can be achieved in school. For these students, level of achievement may be more focused on promoting and achieving physical and emotional wellbeing, being able to communicate, and staying safe.

There is currently limited nationally consistent data on the number and location of students with disability in schools, their educational needs, the level of educational adjustments that are being provided, and the educational outcomes of students with disability as a specific group.

While students with significant intellectual or complex disabilities are exempt from NAPLAN testing, the remaining students in the disability cohort are encouraged to participate. However, there is no national school-based data collection mechanism (such as the methods used by ACARA to collect data for the *My School* website) for these students. Moves are underway to report the outcomes of students with disability as a subgroup of a school's population on the *My School* website, but a common way of identifying students with disability must be adopted by the states and territories before this can happen.

Research demonstrates that students with disability are less likely to complete Year 12. In 2009, approximately 30 per cent of people aged 15 to 64 years with a reported disability had completed Year 12, and 15 per cent had completed a bachelor's degree or higher. This compares to 55 per cent and 24 per cent for people without disabilities respectively (ABS 2010a).

This comparative lack of educational attainment has a negative effect on the employment prospects and level of income for people with disability. In 2009, the unemployment rate for people aged 15 to 64 with reported disabilities was 7.8 per cent, compared to 5.1 per cent for those with no reported disabilities. The median gross personal income per week for people aged 15 to 64 with reported disabilities was \$306, compared to \$614 for those with no reported disabilities (ABS 2010a). There are also greater levels of welfare dependence among people with reported disabilities.

Model for collecting nationally consistent data on students with disability

Progressing a nationally consistent approach to identifying students with disability, including measuring the level of educational adjustment of these students, is a priority of Australian governments.

In 2008, COAG agreed to work towards a nationally consistent approach to identifying students with disability. In January 2011, a national steering committee was established to govern the trial of the national model to identify school students with disability. The committee included representatives of all state and territory education authorities, representatives from the Catholic and independent school sectors, ACARA and DEEWR.

The trial was conducted in 149 schools,⁶ including six special schools, during the period May to July 2011 and involved over 7500 students. The trial set out to determine the number of students with a diagnosed disability, and the extent of adjustments taken by a school to assist these students to access and participate in education on the same basis as students without disability (Pricewaterhouse Coopers 2011).

The national model consists of four disability categories (physical, cognitive, sensory and social/emotional) and four adjustment categories (extensive, substantial, supplementary or no adjustments).

The trial of the national model found that around 4 per cent of students with a diagnosed disability needed no educational adjustment to participate in education on the same basis as students without disability. Other students (around 60 per cent) required supplementary adjustments, 25 per cent required substantial adjustments, and 10 per cent required extensive adjustments. These percentages applied to students with disability in mainstream schools (PricewaterhouseCoopers 2011).

3.2.5 Remoteness

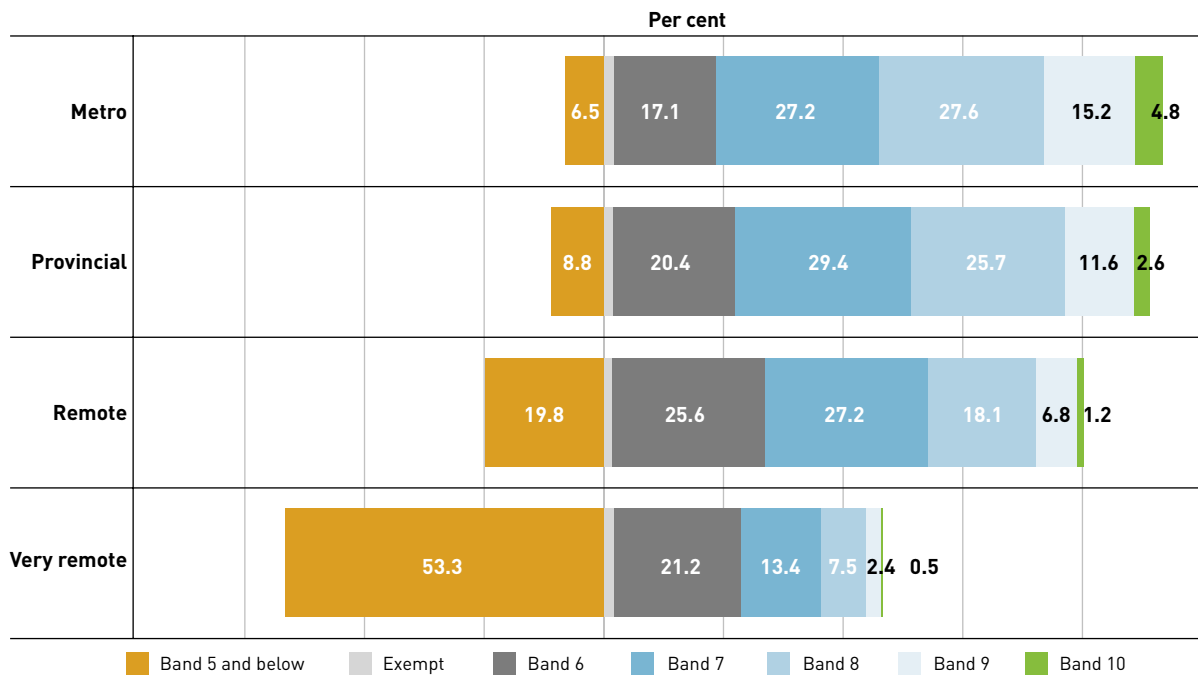
The location of schools in Australia can be classified within one of four groups: metropolitan, provincial, remote and very remote, as determined by MCEECDYA. The remoteness of a school is a well-known factor that impacts on student outcomes, and the most recent data confirm that this is the case.

NAPLAN results from 2010 show that students in remote and very remote schools are consistently outperformed by students attending metropolitan schools. While 92 per cent of metropolitan students performed at or above the national minimum standard of achievement in Year 9 reading,

⁶ The participating schools were selected by education authorities to be representative of the government, Catholic and independent sectors.

79 per cent of remote students, and only 45 per cent of very remote students, performed at this level. Figure 44 illustrates these results and highlights that the performance of very remote students is of particular concern. More than half of these students achieve at Band 5 and below, which is below the minimum standard. In remote and very remote areas, these results may also reflect the impact of low socioeconomic and Indigenous factors.

Figure 44: 2010 Year 9 NAPLAN reading scores by location



Source: Reproduced from The Nous Group 2011, *Schooling challenges and opportunities*, Figure 25, using ACARA, NAPLAN 2010 data.

An analysis of mean 2010 NAPLAN scores conducted by MCEECDYA's Strategic Policy Working Group further demonstrates this trend. The analysis reveals that average reading scores decrease with distance from metropolitan centres and that this trend holds across all year levels.

Other data sources confirm a disparity in outcomes according to student location, with 2009 PISA results showing the gap between 15 year-olds in metropolitan schools and remote schools across all domains is equivalent to 1.5 years of schooling (Thomson et al. 2011).

Non-metropolitan students also have lower rates of Year 12 attainment, as well as lower rates of transition to university. In 2010, 81 per cent of young adults aged 20 to 24 years from major cities attained Year 12, compared to 67 per cent of students from inner or outer regional areas and 64 per cent of students from remote or very remote areas (ABS 2011a).

Finding 19

The key dimensions of disadvantage that are having a significant impact on educational performance in Australia are socioeconomic status, Indigeneity, English language proficiency, disability and school remoteness.

3.2.6 The compound effect of disadvantage

Above and beyond the impact of individual factors of disadvantage on educational outcomes, evidence confirms there are also complex interactions between these factors. Many Australian students experience multiple factors of disadvantage and it is these students whom data confirm are at the highest risk of poor performance. In their assessment of funding approaches for disadvantaged students, the Australian Council for Educational Research noted that 'in addition to specific groups (of disadvantaged students) an ongoing challenge for schooling is to put in place mechanisms that can deliver adequate resources for students with multiple disadvantages' (ACER 2011, p. 71).

The interaction between Indigeneity, low socioeconomic status and attending school in a remote or very remote location is particularly strong in Australia. While compound disadvantage is not something that is experienced exclusively by Indigenous students, research confirms that Indigenous students are over-represented in all categories of disadvantage.

Indigenous students are over-represented in the lowest socioeconomic quartiles of PISA's index of economic, social and cultural status, and conversely are under-represented in the highest quartiles. The percentage of Indigenous students in remote and very remote schools is also higher than non-Indigenous students.

The educational outcomes achieved by Indigenous students who live in very remote locations are of particular concern. According to 2010 NAPLAN data, the compound effect of these factors is so large that Indigenous students living in very remote areas for all domains and year levels performed, on average, below the mean score of Year 3 non-Indigenous metropolitan students (DEEWR administrative data 2011).

AEDI data show that 22 per cent of Indigenous children speak a language other than English in the home, which is a similar level to non-Indigenous students (Centre for Community Child Health and Telethon Institute for Child Health Research 2009). However, Indigenous languages were much more likely to be spoken as a first language by Indigenous people living in remote and very remote areas. More than half of the Indigenous population living in very remote localities speak an Indigenous language as their first language at home (56 per cent), compared with only 1 per cent of those living in major cities (ABS 2010d).

Indigenous students are also more likely to have a disability that affects their learning. For example, Indigenous children living in remote communities have a high rate of the middle ear disorder otitis media. In 2009, 74 per cent of Indigenous children who had a Northern Territory Emergency Response audiology check had at least one middle ear condition, and 54 per cent had some hearing loss (Department of Health and Ageing unpublished, cited in Steering Committee for the Review of Government Service Provision 2011a).

Finding 20

There are complex interactions between factors of disadvantage, and students who experience multiple factors are at a higher risk of poor performance.

3.2.7 Concentrations of disadvantage

Concentrations of disadvantage in Australian schools

When compared to other high-performing OECD countries, Australia's schooling system is characterised by a strong concentration of disadvantaged students in certain schools, and conversely, a strong concentration of advantaged students in other schools. Australia also has a relatively low proportion of students who attend schools with average or mixed socioeconomic backgrounds.

Research commissioned by the panel found that one-third of all Australian schools serve a student population where the average socioeconomic background of students is below the national average. Further, within these schools, the majority of students are from the lowest socioeconomic backgrounds (58 per cent), with much smaller proportions of students from middle (32 per cent) and high (just 11 per cent) socioeconomic backgrounds (The Nous Group 2011).

In submissions to the review, several key stakeholders, including some state and territory education departments, supported this finding. These stakeholders noted that some government schools are becoming increasingly characterised by high numbers of disadvantaged students (see Chapter 1.1).

Research demonstrates that concentrations of disadvantage at the school level accentuate underperformance. Concentrations of disadvantage have been demonstrated not only to impact on student performance, but also to impact on teacher morale and community alienation from the school, and result in difficulties in attracting and retaining good teachers and students. As a school's reputation worsens, it is argued that more parents send their children elsewhere, and hence the cycle continues.

Researchers Perry and McConney (2010) found there are multiple ways in which schools with high concentrations of disadvantaged students differ from schools with high concentrations of students from more advantaged backgrounds. These include less material and social resources, more behavioural problems, less experienced teachers, lower student and family aspirations, less positive relationships between teachers and students, less homework and a less rigorous curriculum.

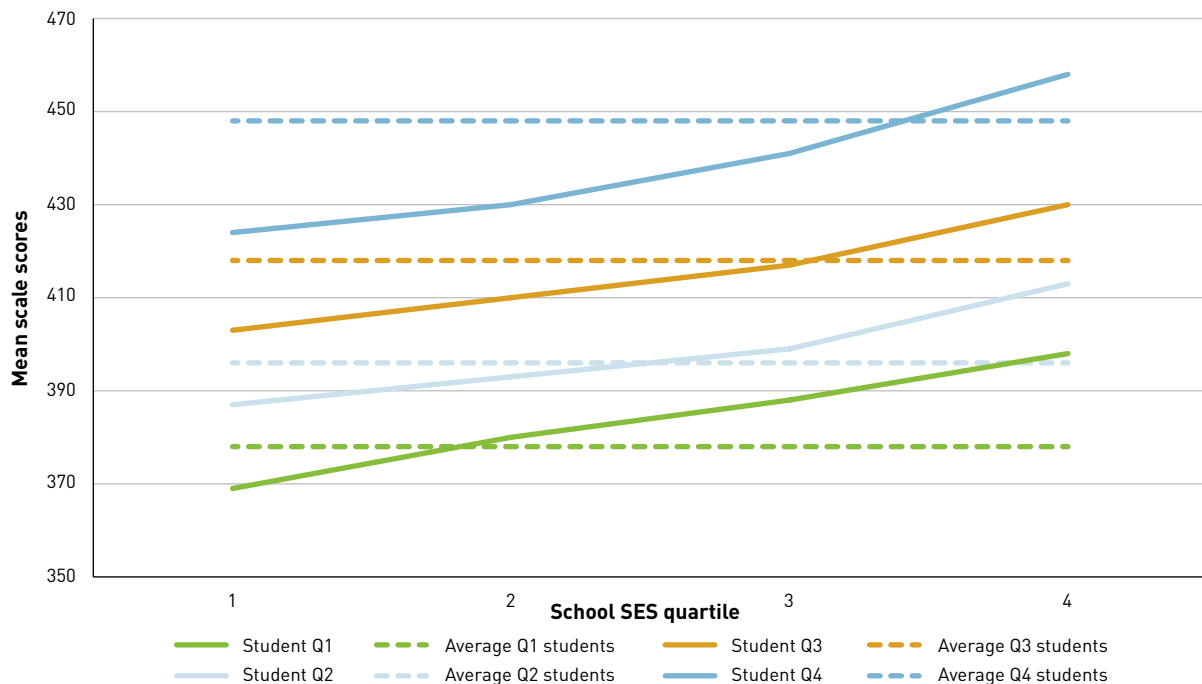
The impact of concentration of disadvantage on educational outcomes

Many international studies, as well as research using PISA and NAPLAN data, confirm that concentrations of students from certain socioeconomic groups within a school has a strong impact on the educational outcomes achieved by all students at the school. Importantly, research also suggests that this impact is more significant than the effect of an individual student's own socioeconomic status on outcomes.

In Australia, analysis of NAPLAN data confirm that the effect of school socioeconomic status is significant and exists across the socioeconomic spectrum. Analysis conducted by MCEECDYA's Strategic Policy Working Group (MCEECDYA 2011b) confirms that the socioeconomic status of a school affects the performance of individuals within that school, irrespective of their own socioeconomic status.

Figure 45 demonstrates that for Year 3 students, average performance improves as socioeconomic status rises (the dotted lines). It also demonstrates that while an individual student's socioeconomic status does affect their performance, the average socioeconomic status of the school they attend also affects their performance (the solid lines).

Figure 45: Year 3 students by SES quarter and school SES quarter



Note: Mean scale score refers to the average of students' reading and numeracy scores in NAPLAN over 2009 and 2010. This work is the subject of further review. Caution should be exercised in drawing conclusions about the relative correlations of individual variables underpinning the analysis.

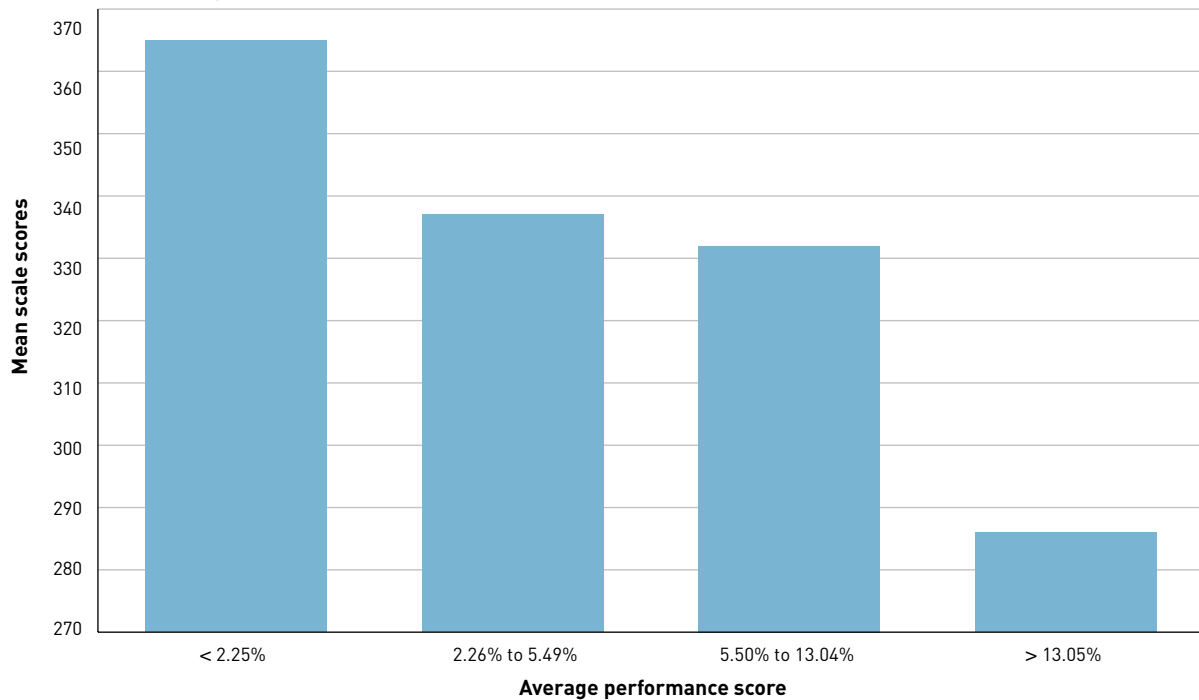
Source: MCEECDYA Strategic Policy Working Group 2011b, unpublished data.

These results were found to hold across all year levels examined (Years 3, 5, 7 and 9) which led the Strategic Policy Working Group to conclude that 'school concentrations of high socioeconomic status students appear to be a valuable resource in terms of individual student performance, while concentrations of low socioeconomic status students are a disadvantage' (MCEECDYA 2011b, p. 9).

Based on analysis of 2003 PISA results, Perry and McConney (2010) have also demonstrated that all students, regardless of their personal socioeconomic status, benefit strongly and relatively equally from schooling contexts in which the socioeconomic status of the school group is high. Similarly, all students, regardless of their personal socioeconomic status, perform considerably less well in schools that cater for students from low socioeconomic backgrounds.

There is also evidence demonstrating that concentrations of other factors, such as Indigeneity, have similar impacts on educational outcomes. Analysis of NAPLAN data undertaken by the Strategic Policy Working Group indicates that Indigenous student performance is directly influenced by the level of concentration of Indigenous students in the school, and that the higher the concentration of Indigenous students, the lower their average scores, as illustrated in Figure 46.

Figure 46: Average performance of Year 3 Indigenous students by concentration of Indigenous students in schools



Note: Mean scale score refers to the average of students' reading and numeracy scores in NAPLAN over 2009 and 2010. This work is the subject of further review. Caution should be exercised in drawing conclusions about the relative correlations of individual variables underpinning the analysis.

Source: MCEECDYA Strategic Policy Working Group 2011b, unpublished data.

It should be noted that high concentrations of some groups of students do not appear to have a negative impact on educational outcomes. A concentration of English as a second language students, for example, has been found to have a positive impact on predicted mathematics scores (The Nous Group 2011).

Finding 21

Increased concentration of disadvantaged students in certain schools is having a significant impact on educational outcomes, particularly, but not only, in the government sector.

Concentrations of students from low socioeconomic backgrounds and Indigenous students have the most significant impact on educational outcomes.

3.2.8 Conclusion

The factors that are having a significant impact on the educational outcomes of students in Australia are socioeconomic status, Indigeneity, a lack of English language proficiency, disability and school remoteness. The panel acknowledges that there are large variations in student performance within these groups, and in some cases has found that further work needs to be done to develop nationally consistent measures of need, to ensure that resources can be directed to support the most disadvantaged students within each group.

Over and above the individual impacts of educational disadvantage, the panel is convinced that the compound and concentrated effects of disadvantage at the school level are significant and require action. Particularly compelling is the evidence that suggests that all students, regardless of their own background, seem to perform better in schools with a higher average socioeconomic background.

Schools with high concentrations of disadvantaged students clearly present a unique set of challenges. It is clear that these schools require additional resources and other teaching strategies to overcome these challenges.

There are multiple ways to address the impact of concentration of disadvantage on educational outcomes. One way to minimise differences in quality between low and high socioeconomic status schools is to adopt a funding model that provides similar resources to all schools and additional funding to schools with high needs. Another way is to ensure that core curriculums and program offerings are relatively similar across all schools. Increased investment in schools with concentrations of disadvantage can also be used to help schools introduce programs that will make them more attractive to higher socioeconomic status families (Perry and McConney 2010).

The panel recognises that, on balance, a combination of these approaches is probably required and notes that Australia has made significant progress towards ensuring core curriculums are similar across all schools through the introduction of the Australian Curriculum. The panel does not advocate for incentives that encourage students to move between schools to 'even out' the distribution of disadvantage. Instead, the panel believes the most effective way to address the impact of concentrations of disadvantage is to allocate additional resources, over and above the base level, to schools where disadvantage is more concentrated, so they can invest in strategies to assist these students and to overcome the impact of this disadvantage.

Achieving greater equity in schooling requires an increased investment in disadvantaged students and disadvantaged schools. However, it also requires that additional resources are used by schools to employ evidence-based strategies in a comprehensive, integrated and sustainable manner. This will be discussed further in Chapter 3.4.

Recommendation 5

The Australian Government and the states and territories, in consultation with the non-government school sector, should make reducing educational disadvantage a high priority in a new funding model. This will require resourcing to be targeted towards supporting the most disadvantaged students and should:

- capture variation in performance within categories of disadvantaged students
- significantly increase support to schools that enrol students who experience multiple factors of disadvantage
- significantly increase support to schools that have high concentrations of disadvantaged students.

3.3 Funding for educational disadvantage

This chapter describes the funding provided by governments to support the educational outcomes of disadvantaged students. It discusses the current overall investment, and compares this investment across the states and territories, noting the difficulties in presenting nationally comparable data. It also outlines the key issues with the current arrangements, and makes a recommendation for achieving a simpler and more transparent approach to funding disadvantaged students and schools.

3.3.1 The emergence of funding for disadvantage

The Australian Government and state and territory governments have been providing funding to support the outcomes of disadvantaged students for many decades. This funding is provided in addition to general funding, and aims to support these students to engage in learning on the same basis as students who do not face disadvantage.

Currently, funding allocations for disadvantage are provided by governments in a variety of ways. These allocations generally provide funding for individual students or groups of students with specific characteristics, but can also apply to schools in certain circumstances. As demonstrated in Chapter 3.2, many of the programs and initiatives that have been set up by governments to support disadvantaged students or school communities have been based on relatively blunt measures of disadvantage, such as LBOTE status and disability type. They may also be based on historical programs, resulting in funding which is complex and opaque in design, and not responsive to the current learning needs of students.

Broader legislative and policy developments have also influenced funding for disadvantaged students over time. The 1967 referendum changed the Australian Government's constitutional powers, enabling legislation specific to Indigenous Australians. The Australian Government has since introduced several initiatives to improve the outcomes of Indigenous students in schools. For example, the Indigenous Education Policy and its accompanying legislation in 1989 was an important milestone in providing funding for Indigenous students and resulted in a number of major national funding programs. Similarly, the *Disability Discrimination Act 1992* and subsequent Disability Standards for Education in 2005 have influenced the way programs for students with disability have been developed, by creating legislative obligations on education providers to ensure that students with disability receive an appropriate education, and by extension, adequate resources.

Over the last decade many state and territory governments have moved away from discrete targeted programs towards funding disadvantaged students and schools through per student-based funding formulas, where resources may be provided as a loading or a weighting to a school's base resource allocation. Many of these arrangements have been informed by increasingly sophisticated state-level data on the educational outcomes and associated needs of disadvantaged students and schools. As foreshadowed in Chapter 3.2, these data show that there are variations in student outcomes within each disadvantaged group, as well as complex interactions between them at the school level through the effect of concentrated levels of disadvantage.

More recently, the Australian Government has moved towards a more 'outcomes-based' approach to funding disadvantaged students and school communities, through the National Schools SPP and the National Partnerships. Under these arrangements, the government sector (and the non-government sector for the National Partnerships) have greater flexibility in how funding is used, provided that schools are working towards achieving the national objectives and reform directions agreed by all governments under the National Education Agreement.

3.3.2 Current approaches to funding disadvantage

Australian Government funding

The Australian Government provides funding for educationally disadvantaged students in government and non-government schools. As detailed in Chapter 2.1, the funding arrangements differ between the schooling sectors following the introduction of the Federal Financial Relations Framework in 2009. As a consequence of these arrangements, it can be difficult to determine the amount of funding that is being provided to address disadvantage in the government sector because funding is 'rolled into' a global funding allocation through the National Schools SPP.

In contrast, Australian Government funding for disadvantaged students in non-government schools is easier to quantify, as it consists of a number of discrete programs administered under the *Schools Assistance Act 2008*. These include Recurrent Assistance and a number of targeted programs.

As outlined in Chapter 2.3, Australian Government Recurrent Assistance for non-government schools is based on a school's socioeconomic score under the SES funding model. In addition, non-government schools catering for students with disability and students with behavioural and emotional problems, schools catering for high numbers of Indigenous students, and non-government schools located in remote locations receive the maximum amount of recurrent funding available for these students, regardless of the school's socioeconomic score. Eligible non-government schools also receive a remoteness loading to supplement recurrent funding for students studying at eligible locations. Indigenous Supplementary Assistance is also provided for all Indigenous students studying at non-government schools.

Targeted programs include the Literacy, Numeracy and Special Learning Needs Program, ESL—New Arrivals Program, and the Country Areas Program. Each targeted program has set objectives, eligibility criteria and conditions for the use of the funding. Funding is allocated to schools through non-government systems and state and territory Associations of Independent Schools. These bodies make decisions on the allocation of funding to their member schools, and retain a proportion of funds for administrative purposes. Unlike Recurrent Assistance, where systems are able to retain 2 per cent of funding for administrative purposes, the proportion of targeted program funding that can be retained is, for most programs, not specified in program guidelines (see Chapter 2.1).

National Partnerships

A number of National Partnerships provide significant funding to support educationally disadvantaged students in some schools in the government and non-government school sectors. Of the nine schooling National Partnerships set out in Chapter 2.1, four have a direct relationship with disadvantaged students:

- Smarter Schools—Literacy and Numeracy
- Smarter Schools—Low SES School Communities
- Closing the Gap in the Northern Territory
- More Support for Students with Disabilities.

While these National Partnerships are funded by the Australian Government, most have a co-investment condition that requires state and territory governments to match the funding or continue their own expenditures.

Funding provided through the National Partnerships has been generally well received by state and territory government school stakeholders, particularly the Smarter Schools—Literacy and Numeracy and Smarter Schools—Low Socioeconomic Status School Communities National Partnerships, which

have been considered valuable in concentrating resources in targeted schools. Schools have been encouraged to invest resources in areas that have been proven to improve educational outcomes, such as effective and evidence-based teaching of literacy and numeracy, attracting high-quality principals and teachers to schools, and providing greater flexibility over staffing, school management and budgeting. Some states and territories have reported early evidence that the funding is having positive impacts on school attendance, participation and performance. These impacts will be discussed in more detail in Chapter 3.4.

The non-government sector has not supported National Partnerships to the same degree. While broad recognition for the strategic benefits has been reported, concern has been expressed around the sector's exclusion from strategic deliberations and subsequent ability to access the funds, the administrative burden associated with the National Partnerships, and difficulties in continuing the activities when the funding period ends.

As of July 2011, over a quarter of all schools in Australia had been targeted for support through the Smarter Schools—Literacy and Numeracy and Low Socioeconomic Status School Communities National Partnerships. This includes 1922 government schools, 449 Catholic schools and 225 independent schools. While these school numbers are substantial, there are some schools that support sizable numbers of disadvantaged students that are not eligible for assistance under the National Partnerships.

Commonwealth own-purpose expenses

The Australian Government also supports the educational outcomes of disadvantaged students through a number of Commonwealth own-purpose expenses. These are initiatives that align with the Australian Government's policy priorities. The Better Start for Children with Disability initiative and the Helping Children with Autism package are examples of two such programs.

The *Indigenous Education (Targeted Assistance) Act 2000* also provides funding for a range of programs and projects to support the outcomes of Indigenous students across early childhood, schooling, vocational and tertiary education. This includes programs and projects such as Parental and Community Engagement, Indigenous Youth Mobility, Indigenous Youth Leadership, and Sporting Chance. Programs are often delivered through non-school organisations. Other Commonwealth own-purpose expenses that are funded through annual appropriations include the Northern Territory Emergency Response School Nutrition Program and the Australian Indigenous Education Foundation Scholarships.

State and territory government funding

State and territory governments are the major funders of disadvantaged students and schools in the government sector, with the Australian Government providing supplementary assistance. The quantum of funding each state and territory government provides for educational disadvantage is not known. State and territory government funding allocations for schooling are outlined in their respective budget papers. However, most of these budget papers detail allocations for the delivery of education services, and only provide disaggregated data for some student groups, such as students with disability.

All state and territory governments use a variety of formulas for the base allocation of resources to government schools. Various weightings and multipliers are added to the base in recognition of the needs of different groups of students and different types of schools and communities. The methodologies used by state and territory governments to calculate the additional funding allocations for disadvantaged students and schools are highly detailed, and vary considerably across jurisdictions.

Generally, all jurisdictions allocate resources to government schools for socioeconomic disadvantage, disability and English as a second language. New South Wales, Queensland, Western Australia, South Australia and the Northern Territory also provide support for Indigenous students and students in rural and remote locations, and Tasmania provides support for students based on locational disadvantage.

Funding for disadvantaged students and schools can be provided in the form of additional staffing, weightings or loadings to a school's base budget, grant payments, or a mix of these arrangements.

Several jurisdictions also provide funding for disadvantaged students through stand-alone targeted programs that support specific outcomes for identified groups of students in government schools. A range of support and transport services as well as student support allocations are also delivered, such as subsidised travel for eligible school students and student assistance schemes.

State and territory governments also provide recurrent grants to non-government schools through different sets of formulas and procedures, many of which include needs-based weightings. The formula typically identifies the total level of non-government school grants, attaches weightings to categories of high-need schools and calculates their grants, deducts these grants from the pool, and then distributes the remaining funds to other schools. In some states, such as Queensland, there have been recent changes to increase the percentage of the needs component, to be implemented gradually over a number of years (Keating et al. 2011).

3.3.3 Current overall investment

The collective allocations for disadvantaged students from the Australian Government and state and territory governments are substantial. Rorris et al. (2011) estimated that approximately \$4.4 billion was spent by governments on programs for disadvantaged students in 2009–10, based on survey data compiled by state and territory education departments and the non-government sector. This represents just over 11 per cent of the total recurrent funding⁷ across the five groups of disadvantage (Figure 47).

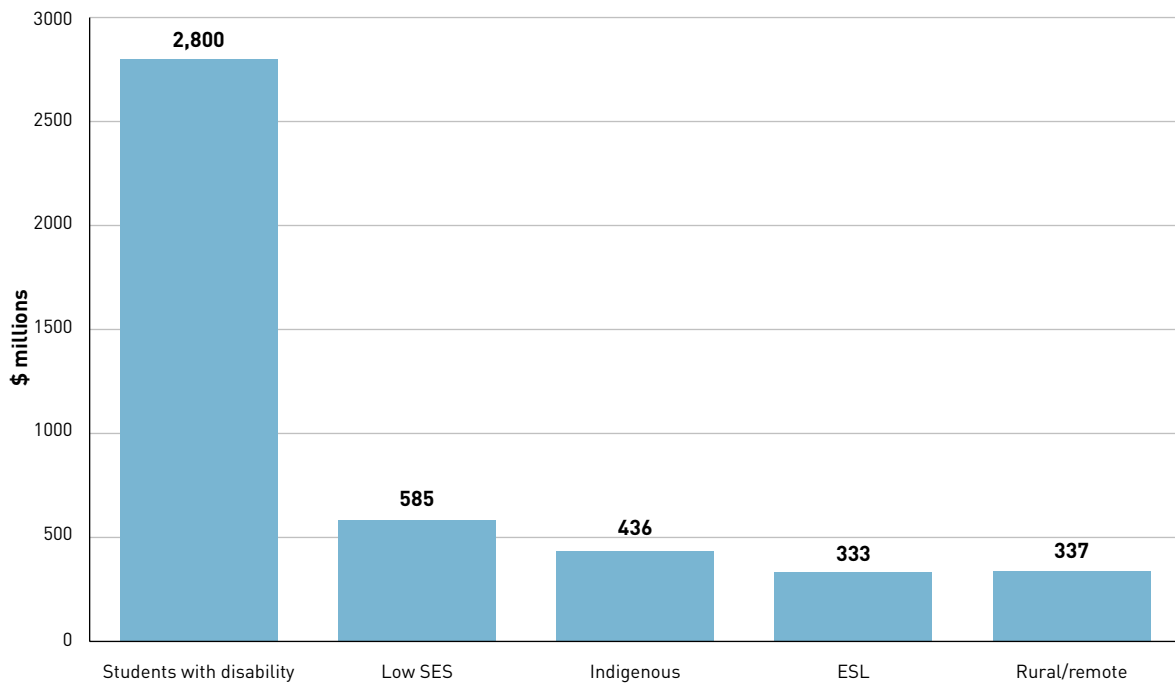
It should be noted that significant caveats and limitations were reported in the data that were collected and analysed and in view of these limitations, it was concluded that the national aggregate figures were underestimates, particularly for targeted funding for students from low socioeconomic backgrounds.

Rorris et al. (2011) undertook further analysis to determine the average per student amount of funding for disadvantaged students across all states and territories. However, average per student funding was only reported for students in the government sector, as this sector provided the most complete set of financial data. Like the aggregate funding data, significant limitations and caveats were reported for the average per student funding amount, as well as problems in comparing the data across states and territories.

The analysis found a large variation in the average per student amounts across the five groups of disadvantage, with a different pattern emerging to the aggregate funding levels. For example, while funding for low socioeconomic status was the second highest pooled allocation with \$585 million spent on these students in 2009–10, it was the smallest per student allocation. Only an average of \$426 (in additional resourcing) was expended on students from low socioeconomic backgrounds over the year (Rorris et al. 2011). This indicates that the number of students from low socioeconomic backgrounds across Australia may be large, and the available funding is being spread too thinly.

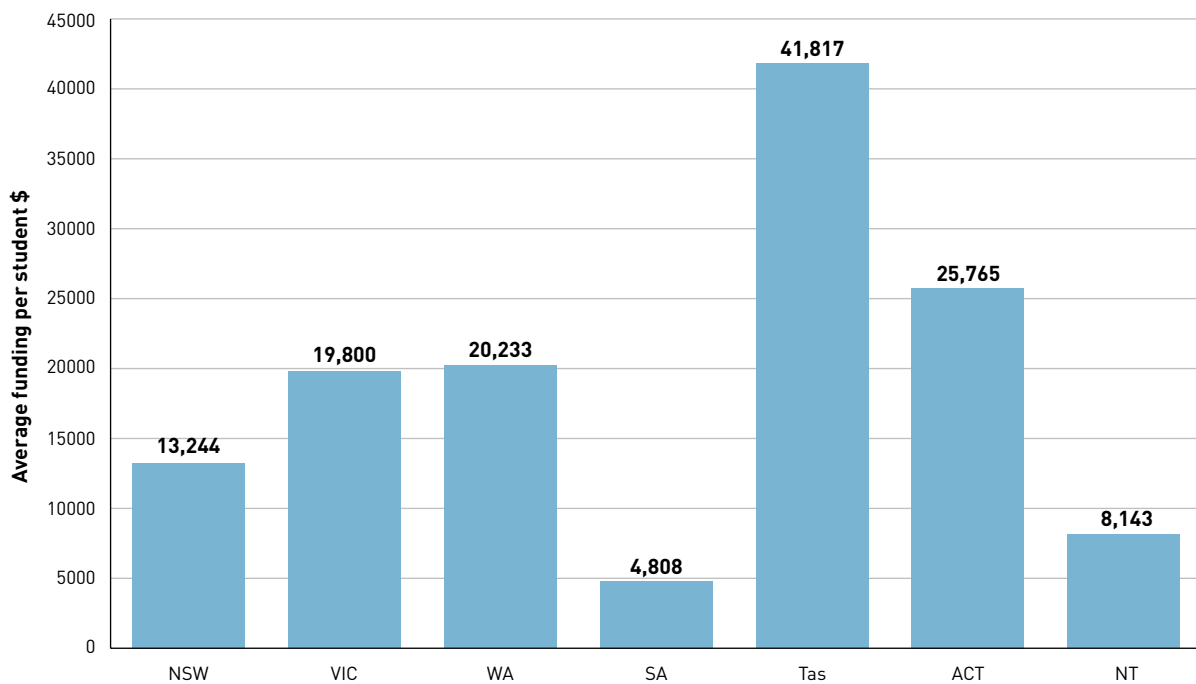
⁷ Based on 2009 total net recurrent income of all Australian schools of almost \$39 billion.

Figure 47: Aggregate government funding for disadvantaged students, 2009–10



Source: Rorris et al. 2011.

Figure 48: Average funding per student for students with disability in government schools, by state and territory, 2009–10



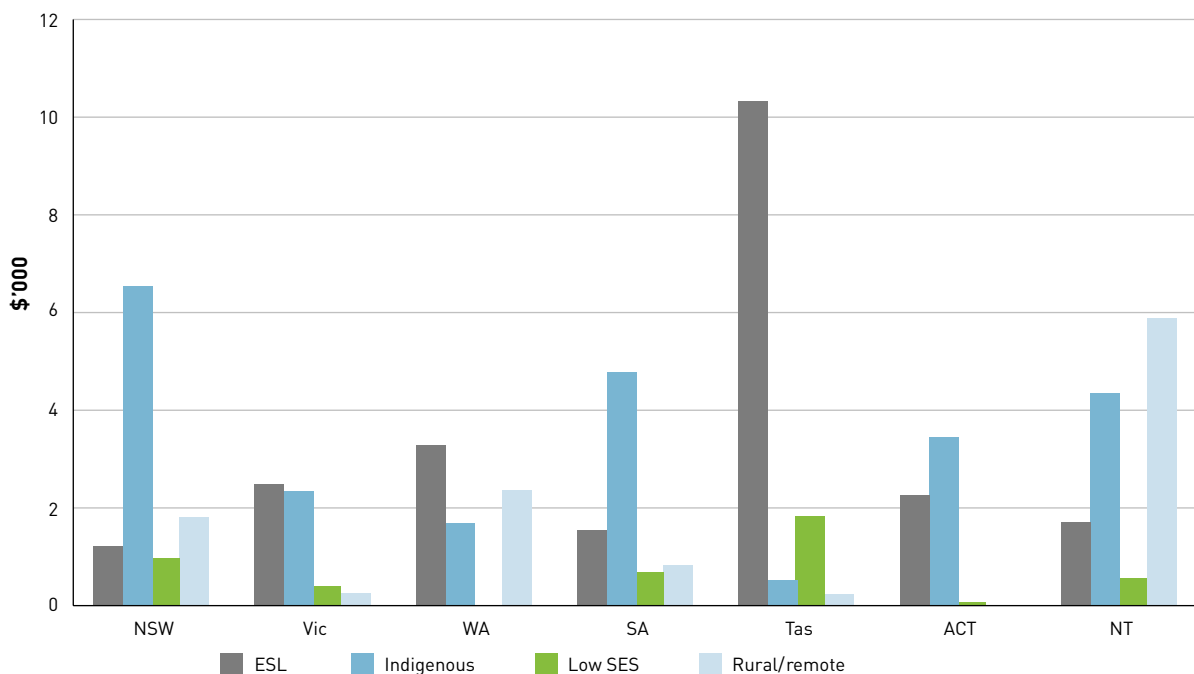
Note: Excludes Queensland as insufficient data was received from the government sector to be included in the analysis.

Source: Reproduced from Rorris et al. 2011.

Significant variations were also reported in per student funding allocations across the states and territories, as illustrated in Figure 48 and Figure 49. These variations reflect the different programs and policies that support educationally disadvantaged students in each state and territory, but also the extent that disadvantage is present in a particular jurisdiction. This can be impacted by the different methods used to define some groups of disadvantaged students across the states and territories.

As discussed in Chapter 3.2, variations in educational need across the disadvantaged groups are most pronounced for students with disability, as reflected in the vast differences in the allocations provided to students within this cohort. States such as Victoria and South Australia apply per capita amounts (additional to base funding) for students with disability in government schools based on a scale from low to high support needs. In Victoria, allocations are divided across a six-point scale and range from \$5894 to \$44 991 (Vic. DEECD 2011). South Australia uses a similar needs-based scale, with allocations ranging from \$1722 to \$36 757 for students with disabilities in mainstream education (SA DECS 2010).

Figure 49: Average funding per student for remaining equity groups in government schools, by state and territory, 2009–10



Note: Excludes Queensland as insufficient data was received from the government sector to be included in the analysis.
Excludes low SES for Western Australia due to lack of data on number of beneficiaries.

Source: Rorris et al. 2011.

The majority of funding for students with disability in the government sector is from state and territory resources. The Australian Government provides only what could be considered top-up funds.

The funding state and territory governments provide for students with disability in the non-government sector varies considerably. Although some funding is provided by the Australian Government through the Literacy, Numeracy and Special Learning Needs Program, this program only provides a flat per capita annual amount for every eligible student with disability. In 2011 this amount was \$994. These funding arrangements have resulted in some students with disability in non-government schools receiving substantially less funding than students with the same educational needs in government schools, particularly students with high support costs.

Finding 22

The existing resourcing provided to the government and non-government school sectors for students with disability remains an issue. Students with disability in non-government schools receive substantially less public funding than their counterparts in government schools.

3.3.4 Determining the effectiveness of funding

Rorris et al. (2011) set out to determine the effectiveness of funding for disadvantaged students on educational outcomes, and concluded that there were insufficient nationally consistent data to establish effectiveness. Although there have been some studies at a state or territory level that have evaluated funding or resourcing and its impact on the educational outcomes of disadvantaged students, or a specific group of students, few have attempted to collect and analyse such data at a national level.

More should be known about the impact of Australian Government targeted funding for disadvantaged students and schools on improved outcomes. Programs such as the Literacy, Numeracy and Special Learning Needs Program, ESL—New Arrivals Program and Country Areas Program provide significant funding to the non-government sector, and prior to 2009, to both the government and non-government school sectors. Although there are set objectives and guidelines around the use of funds, very limited data are required of state and territory governments and the non-government school sector on the impact funding is having on the educational outcomes of targeted students.

National Partnership arrangements have offered systems and schools greater flexibility at the local level in the use of funding for disadvantaged students and schools. Instead of prescribed inputs, systems and schools are working towards the achievement of targets, involving sustained improvements in literacy and numeracy outcomes, as well as other broader outcomes, such as attendance and engagement in school. Although the full impact of the National Partnerships will not be known for some time, evidence of a positive impact on student outcomes for disadvantaged students is beginning to emerge (see Chapter 3.4).

Over time, the National Partnerships should contribute to a more sound evidence base for assessing the impact of additional funding for disadvantage on educational outcomes. However, further steps will be needed to harness the potential benefits of evidence and data in schooling in ways that powerfully drive improved performance and greater equity.

3.3.5 A future funding approach

Nationally comparable data on disadvantaged students

It is difficult to determine what is spent on disadvantaged students and schools at a national level due to complex and varied funding arrangements at the state and territory level. This difficulty is compounded by differences in how students are defined for funding purposes. As outlined in Chapter 3.2, this is particularly the case for students with disability, students from low socioeconomic backgrounds, and the group of students within the LBOTE category that are the most disadvantaged.

The difficulties in collecting nationally consistent data on the disadvantaged student groups has flow-on effects to determining the funding needs of these students. Some states and territories have sophisticated data on student performance, including data on the impact of disadvantage on educational outcomes, which they use to direct resources. Other states do not appear to have the same level of sophistication in terms of data collection and use.

Efforts must be made to collect nationally comparable data on investment in disadvantaged students across the three schooling sectors and the impact funding for disadvantaged students and schools is having on improving educational outcomes.

Finding 23

The lack of robust, nationally comparable data on funding for disadvantaged students and its impact on improving educational outcomes is a significant concern. If Australia is to achieve greater equity in educational outcomes across its schooling system, these data will be paramount in ensuring funding is directed to where it is needed most, and improvements can be measured and strengthened over time.

Providing funding for disadvantage with enhanced accountability

The benefits of the Australian Government adopting an outcomes-based approach to funding, as evident through the National Schools SPP and the National Partnerships, was widely recognised in submissions to the review. For funding that is provided for educational disadvantage, such as through the National Partnerships, it was recognised that the increased flexibility in how funds can be used has allowed additional resources to more effectively target student need within traditional equity groups. State and territory governments are also moving towards greater per student-based recurrent funding formulas with adjustments for student, school and curriculum factors and devolved school funding approaches (Rorris et al. 2011).

While outcomes-based approaches to funding offer flexibility in how systems and schools allocate resources, they can make it difficult to assess the impact of the effectiveness of targeted funding for the identified groups of disadvantaged students. This is particularly the case for students from low socioeconomic backgrounds, where a number of factors impact on student outcomes and other areas of disadvantage may be present. Rorris et al. (2011) have reported that several states and territories are in the process of reviewing their school funding systems, and that a key element of these reviews is introducing changes that can better address the impacts of programs on low socioeconomic status schools and concentrated school disadvantage.

In contrast to the outcomes-based approach to funding, Australian Government targeted funding for non-government schools is mostly provided through specific narrow-cast programs, where funding is based on inputs. These inputs tend to be based on blunt measures of disadvantage. The guidelines around the use of these targeted program funds should mean that the impact of funding can be determined more easily; however, limited data are collected on the decisions made by non-government systems on the redistribution and use of public funds, and the effectiveness of funding in improving student outcomes for specific groups of disadvantaged students.

Schooling systems now have access to increasingly sophisticated data at the state level on the groups of students and schools that are the most disadvantaged, and most in need of additional support. This includes schools with concentrated levels of disadvantage. The key to addressing disadvantage will be to utilise these data to ensure schools with the highest concentrations of disadvantaged students are funded adequately and appropriately.

The panel considers that all governments should move away from targeted program funding for non-government schools that is based on specific groups and purposes, to a broader outcomes-based approach for all schools. The new funding arrangements must draw upon the best data and allocate resources based on the needs of students and schools. Part of this approach involves education authorities and schools being publicly accountable for the educational outcomes of students who are the recipients of funding that is provided to address disadvantage.

A simpler and more transparent approach to funding disadvantaged students and schools

The wide variation between Australian schools in terms of their size, the communities they serve, and the backgrounds of students results in significant variation in the extent that educational disadvantage is present across sectors and schools.

Some of this variation explains the different funding policies and approaches of the states and territories in funding disadvantaged students and schools. It may also reflect differences in the level of resources that are able to be allocated to addressing educational disadvantage in both government and non-government schools.

If Australia is to make improvements to the overall performance and equity of the schooling system, it is important that funding arrangements for disadvantaged students are clear, predictable and transparent, and that the additional funding that has been identified to support disadvantaged students is directed to those who need it most. A simple approach to the allocation of funding for disadvantaged students and schools will help facilitate the collection of data on the impact the additional funding is having on improving educational outcomes.

Recommendation 6

In contributing towards the additional costs of educating disadvantaged students, governments should move away from funding targeted programs and focus on ensuring that the states and territories and the non-government sector are publicly accountable for the educational outcomes achieved by students from all sources of funding.

Governments should continue to contribute towards the costs of educating disadvantaged students by providing recurrent funding that provides additional assistance for:

- students where the need for assistance is ongoing and reasonably predictable
- schools with the highest concentrations of students who need support to achieve improved educational outcomes.

3.3.6 Conclusion

A significant shift is required in the way all governments provide funding to address educational disadvantage. Existing arrangements are complex, and do not accurately capture student need within student groups. They also fail to take account of the significant impact of concentration of disadvantage at the school level.

All students should be eligible to receive base recurrent funding that supports the achievement of nationally agreed schooling outcomes. For some disadvantaged students this funding may be sufficient to meet their educational needs. For other students, additional equity funding should be provided to supplement the base recurrent funding to enable these students to overcome disadvantage and achieve improved educational outcomes.

New funding arrangements must be clear, simple and transparent, based on nationally consistent data, and ensure that additional funding identified to support disadvantaged students is directed to the students and schools that need it most. They must be responsive to the needs of individual students, but also to the needs of schools that face concentrated levels of disadvantage.

In Chapter 4.2 and 4.3 the panel outlines its proposed funding arrangements, including funding allocations for educationally disadvantaged students.

3.4 Improving outcomes for disadvantaged students

Throughout previous chapters, the panel has discussed the importance of achieving greater equity in Australia's schooling system. It has demonstrated that this can be achieved by addressing educational disadvantage at an individual and school level, and has argued that additional equity funding should replace targeted programs to better support disadvantage.

The provision of additional resources is only part of the solution. The key to addressing disadvantage and improving the overall equity of Australia's schooling system also lies in ensuring that additional resources are used to employ approaches and practices that have been proven to be effective in an integrated and sustainable way.

Disadvantaged students face barriers associated with their background which can impact on educational outcomes. Research also shows that not all disadvantaged students perform poorly—a student's background does not necessarily translate to a particular path or destiny. Countries like Finland and Canada demonstrate that it is possible to do much more to reduce the impact of a student's background on educational outcomes by investing in building capacity in school leaders and teachers, and employing innovative approaches to learning.

There is emerging evidence in Australia from the Smarter Schools National Partnerships that is highlighting strategies that are working to improve outcomes for disadvantaged students. This chapter outlines these strategies. Although some of these approaches may not immediately translate to improved literacy and numeracy results, they create a culture of high expectations and increase the engagement and attendance of disadvantaged students. These factors are known prerequisites for successful learning.

3.4.1 National Partnership arrangements

The Smarter Schools National Partnerships represent a significant commitment by all Australian governments to an integrated strategy to improve the outcomes of educationally disadvantaged students. The three Smarter Schools National Partnerships contain a series of interrelated and complementary reforms. Elements of the Closing the Gap in the Northern Territory National Partnership are also reported within the Smarter Schools National Partnerships framework.

The National Partnership model is proving to be effective in engaging governments in shared endeavour and providing the flexibility they require to align funding with local priorities. Under the model, school systems are able to select from a variety of evidence-based strategies that are proven to be effective in improving educational outcomes for disadvantaged students, and implement them in ways that are best suited to local need.

The National Partnership model is also encouraging increased collaboration between government and non-government school sectors, with schools working together towards shared goals. Education providers across the sectors are beginning to share evidence of effective practice based on experiences gained from the implementation of programs.

Most National Partnership activities have commenced implementation within the last two years, following an initial period of planning. While there is emerging evidence of positive impacts that will be discussed throughout this chapter, the full impact of the National Partnerships will not be evident for some time. Research suggests that it can take up to five years to see sustained student improvement following the introduction of school improvement strategies (OECD 2011d).

Although it is too soon to assess the full impact of the National Partnerships, early signs of their effectiveness are encouraging. Information contained in state and territory reports, a draft national evaluation of the National Partnerships, and an evaluation of pilot projects run in low socioeconomic status school communities conducted for DEEWR, all suggest that investment in evidence-based strategies in an integrated way can improve results for disadvantaged students.

3.4.2 Strategies that improve outcomes

Targeting teacher practice to disadvantaged students

Research has pointed to the importance of teacher quality in improving outcomes for disadvantaged students. Prior knowledge and learning capacity substantially influence each student's learning processes, which means that students learn at different paces. High-quality teachers develop personalised practices to cater to the variety of learning needs, and are flexible in adapting and applying the curriculum in a way that is relevant to disadvantaged students. They diagnose problems with the development of skills at an early stage and select the best intervention strategies depending on the individual learning needs of each student.

A recent study in New South Wales government schools tracked the experiences of three cohorts of students and explored relationships between and among quality teaching and teacher professional learning, student achievement and equity. The study found strong evidence that the quality of teaching has an effect over and above each student's background and prior achievement, and resulted in substantial benefit for students from low socioeconomic backgrounds and Indigenous students (Ladwig et al. 2009).

The OECD (2011d) argues that direct and student-oriented instruction methods are most effective for teaching disadvantaged students. Similarly, the Productivity Commission (2011) suggests that specialist components on appropriate pedagogies for disadvantaged students be incorporated into all teacher training courses, and that pre-service teachers should be given more opportunities to undertake their practicum in disadvantaged schools.

Beyond initial teacher training, skilled teaching is reliant on ongoing professional learning in both subject matter and pedagogy. Building the capacity of teachers and school leaders through engagement in quality professional learning is a key to improving the learning outcomes of disadvantaged students (Dinham 2008). While this can involve external training, professional learning within schools is also critical. The draft *evaluation of the National Partnerships* suggests that raising the level and impact of instructional leadership and peer expectations through the public sharing of classroom practice, coaching and tutoring has a positive impact on the outcomes of disadvantaged students (DEEWR unpublished).

Providing incentives to attract talented teachers and principals to disadvantaged schools can play a vital role in transforming the culture and performance of a school. This enables more experienced teachers to mentor and coach less experienced colleagues. Attracting and retaining high-quality teachers is a particular challenge faced by schools in remote and very remote locations, as well as accessing training for staff. Schools in remote and very remote areas typically experience teacher shortages and higher teacher turnover rates, which can have an unsettling influence on student learning and make it difficult for schools to embed consistent practices and build momentum for school improvement.

For jurisdictions with schools in very remote areas, such as Western Australia and the Northern Territory, retention of staff is a critical issue in ensuring the success of school reforms (COAG Reform Council 2010a). The Remote Teaching Service has been established using National Partnerships funding to address these challenges through strategies to retain those teachers suitable to work in remote schools for two years or more. By attracting quality applicants to remote teaching positions, preparing them thoroughly and supporting them through the challenges of working in remote school environments, it is expected that teacher retention rates will increase.

Literacy and numeracy skills

Disadvantaged students often require accelerated development in literacy and numeracy skills to redress accumulated gaps in understanding and skills. These skills, once acquired, build a foundation for further learning. Through this success, disadvantaged students are more likely to have better educational opportunities and choices during schooling and beyond (OECD 2011d).

The Smarter Schools—Literacy and Numeracy National Partnership funds effort and activity designed to transform classroom practice in literacy and numeracy to improve student outcomes. As outlined earlier in this chapter, transformation can be facilitated by strong instructional leadership, professional support, high expectations, and the use of data to monitor student performance.

The Literacy and Numeracy National Partnership has been evaluated as contributing to the improvement of student literacy and numeracy outcomes, especially in the lower end of the performance spectrum (DEEWR unpublished). NAPLAN data also indicate that students in Literacy and Numeracy National Partnership schools have improved their scores at a greater rate than the national trend, suggesting that the investment is having a positive impact on literacy and numeracy outcomes.

NAPLAN data show encouraging signs that the National Partnership reforms are starting to gain traction. In all states from 2008 to 2010, Literacy and Numeracy National Partnership schools did better in Year 5 numeracy than schools that were not involved. The average scores of Literacy and Numeracy National Partnership schools exceeded the state trends by between 5 and 16.4 per cent, indicating that these schools are improving at a greater rate than would normally be expected.

Box 9: Building teacher capacity and reforming school structures for early literacy and numeracy intervention

In a large primary school in New South Wales in 2010, 90 per cent of Kindergarten students were assessed as being at the lowest level in reading, writing and comprehension and most students were at the lowest level in numeracy. NAPLAN data from 2009 for Years 3 and 5 in reading indicated that the school was below the state average in terms of students achieving proficiency. The student cohort contained over 35 language groups with 98.5 per cent of students coming from a LBOTE.

Through additional funding from the Smarter Schools—Low Socioeconomic Status School Communities National Partnership, the school employed an additional two assistant principals from 2010 and a highly accomplished teacher in 2011, as well as a community liaison officer.

The employment of additional staff has enabled teachers to be released to engage in regular, scheduled, collaborative planning and targeted professional learning around student achievement. The teachers have created extensive data walls that map student achievement against agreed outcomes and used this information to plan for the next learning step for each child. When a student's progress is causing concern, parental input and access to specialist support is sought and individualised learning plans are prepared, as appropriate.

The school's focus on parent and community engagement and effective transition to school processes has also been strengthened, focusing on playgroups, a reading club and various extra-curricular student activities which attract significant numbers of parents and families.

Despite the vast majority of Early Stage 1 students scoring zero in reading tests at the beginning of the year, 79.5 per cent were on track to achieve the school targets in reading and writing by the end of 2010. There was a significant increase in the percentage of Stage 1 students achieving writing outcomes with 70 per cent meeting or exceeding expectations by the end of Term 3. NAPLAN results in Years 3 and 5 are also trending upwards (NSW DEC 2011b).

Strong leadership to drive school improvement

Research suggests that certain whole-of-school practices should be in place to achieve more equitable student outcomes (Hayes et al. 2006; Zammit et al. 2007). While leadership is commonly equated with principals and the school executive, it can take many forms and is more sustainable when it is shared and developed across the school community. Effective leadership can foster effective classroom and improvement practice, including building in coaching, mentoring and tutoring arrangements for teachers. It can also strengthen school improvement strategies through the use of data.

Performance management and regular cycles of school evaluation are critical to driving continuous improvement. Effective leadership can also instil a school culture that embraces social inclusion, student wellbeing and diversity, and values different languages, cultures and abilities, which assist students to feel safe at school (The Nous Group 2011).

As discussed in Chapter 3.2, a large number of disadvantaged students concentrated in the one school can impact on teacher morale. This can lead to teachers lowering their expectations for the academic achievement of their students. The OECD (2011d) notes that such expectations have negative consequences for the quality of instruction provided by teachers and the motivation of students to learn. Research suggests that effective school leadership can help to set high, but achievable, expectations for students. In particular, setting high expectations for attendance and attainment has been found to lead to improvement in outcomes in even the most disadvantaged of schools (The Nous Group 2011).

Box 10: Principals as Literacy Leaders

A key priority area for reform under the Literacy and Numeracy National Partnership is to support school leaders to develop a whole-of-school culture of high performance in literacy and numeracy.

The Principals as Literacy Leaders (PALL) project was one of 30 Literacy and Numeracy Pilots for Low Socioeconomic Status School Communities designed to contribute to an evidence base of effective practice in literacy and numeracy pedagogy for disadvantaged students. It was a collaboration between the Australian Government, the Department of Education and Children's Services in South Australia and the Australian Primary Principals Association.

The program was based around evidence that school principal instructional leadership through involvement and engagement in student outcomes is necessary to influence student achievement in addition to teacher instruction (DEEWR unpublished).

Funding was provided for 60 principals in schools in South Australia, Western Australia, Queensland and the Northern Territory to attend professional development (developed by three tertiary institutions) to build on their extensive experience to become leaders in literacy improvement. Principals were required to undertake an assessment of their school in terms of literacy capability and current environment, and to work with literacy achievement advisers and leadership mentors to develop a site-specific literacy intervention and appropriate resourcing and structuring to enable sustainability in their school beyond funding.

Over 88 per cent of teachers working with principals who participated in the PALL project believed it improved their capacity to address students' difficulties with literacy learning and improved student attitudes to literacy learning. The PALL project also improved teachers' efforts to support parents to better assist in their child's literacy development.

This result has prompted the South Australian Department for Education and Child Development to expand the PALL project to 300 principals, with 150 of these funded under National Partnerships.

Local solutions

National Partnership arrangements allow schools to adopt flexible and locally based solutions to local contexts and challenges in ways that are very different to other Australian Government programs.

Under the National Partnership arrangements, schools are rethinking their traditional mode of operating to better meet the learning needs of students and families and to target early and effective intervention. Through the introduction of flexible school hours, some jurisdictions are catering for the needs and circumstances of students and their families. Similarly, the reconfiguring of classroom structures or reducing class sizes in certain conditions can also support the learning needs of different cohorts.

The flexibility of resourcing afforded by the National Partnership arrangements has enabled schools to achieve improved attendance and engagement through the appointment of dedicated staff, such as mobility or attendance officers, and the use of specific programs to promote wellbeing, confidence, team building and social skills among students.

Parent and community engagement partnerships and strategies

There is a strong association between student achievement and the way in which a school engages with parents and the community. Strategies to engage parents and the community in disadvantaged school communities are generally designed to improve attendance and engagement. This is often the first step in improving the academic outcomes of the students.

Engaged parents encourage positive attitudes towards school, improved homework habits, reduced absenteeism, and can enhance academic achievement. Parents can play a vital role in their children's learning and development by engaging as learning partners from the earliest age, during the school years and beyond school. Increasing the familiarity of parents with school activities can trigger greater positive expectations about their children's education (OECD 2011d).

Underperforming schools can benefit from extra assistance, in the form of resources and other support, to build school capacity to engage with the parents and the community to improve student outcomes. Parents from low socioeconomic backgrounds can face higher barriers to constructing a positive role for themselves in their child's education and may have poorer levels of self-efficacy. This may stem from their own level of education or be shaped by their own negative experiences of school. Language skills, confidence and pressures from other aspects of life can all contribute to weaker levels of engagement (The Nous Group 2011).

In particular, school, parent and community engagement is a crucial means of improving the long-term educational outcomes for Indigenous students. Henderson and Mapp (2002) identified elements of effective practice in connecting schools, parents and communities from diverse social and cultural backgrounds, including building on the cultural values of the family, stressing personal contact, fostering communication with parents, creating a welcoming environment for parents, and ensuring flexible school organisations. Bringing positive Indigenous role models from the community into schools has proven to be successful in increasing engagement among Indigenous students (Sarra 2011).

Schools and teachers often need to build external partnerships and broker a range of support services for students, including working with occupational therapists, clinical psychologists and social workers. Many schools are already active in these areas, but additional needs-based funding would support extension of those approaches which can lift learning outcomes and improve student wellbeing.

Box 11: Working to increase attendance and enhance community engagement

A remote school in the Northern Territory that teaches students from surrounding communities commenced the Smarter Schools—Low Socioeconomic Status School Communities National Partnership in 2010. Of the school population, 96 per cent are Indigenous students and 92 per cent have a LBOTE, with up to 14 languages spoken in total.

The school has used funds to support a range of strategies focused on working with the community, for example, engaging the elders to work in the school as mentors and cultural advisers, and who also act as a bridge between the school and the community. Other strategies included investment in staff professional development and literacy and numeracy intervention programs.

Although NAPLAN results for the school are still at or below similar schools, the results are trending upwards. Attendance rates have risen and the proportion of students attending more than 80 per cent of the time has doubled over the past three years to almost 20 per cent. Anecdotal evidence provided by the principal indicates that as well as truancy, behavioural problems among the children in the school community have decreased.

Finding 24

An evidence base is emerging from National Partnership arrangements demonstrating that investment in integrated strategies that are responsive to local circumstances and need can be effective in improving outcomes for disadvantaged students. Critical elements in these strategies include building teacher capacity, strengthening instructional leadership and engaging parents and the broader community.

3.4.3 Conclusion

The availability of increasingly sophisticated national data on student outcomes is adding rigour to assessments of how Australia's students are performing, and how the schooling system can improve. These data show that Australia can do better to ensure equitable educational outcomes for our children, and ensure that disadvantaged students are not left behind.

Data, along with qualitative research, are also helping to shine a light on the approaches that are working to improve educational outcomes for disadvantaged students. The Smarter Schools National Partnerships have shown that additional investment in evidence-based approaches in an integrated way is improving educational outcomes for disadvantaged students. However, there is some concern that this improvement is based on project-based activity and may not be leading to sustainable, system-wide reform (DEEWR unpublished). This indicates that gains in student performance during the life of the National Partnerships may be lost when funding ceases.

It is the panel's intention to construct a framework based on the best available data and evidence to help systematise reform in schools and achieve sustained improvements across the schooling system. Part 4 of this report outlines funding arrangements, supported by appropriate governance structures, which will embed reform. Additional funding made available to support disadvantaged students should be invested by systems and schools in programs that will have the greatest impact on improving educational outcomes. This will enable continuous improvement to be sustained in the long term, driving improved outcomes for all students in all schools.

Recommendation 7

Future funding arrangements and governance structures for schooling should aim for sustained improvements in the educational outcomes of disadvantaged students, as part of achieving better outcomes for all students. To achieve this, additional funding provided to schools to overcome disadvantage should be invested in strategies that:

- improve practices for teaching disadvantaged students
- strengthen leadership to drive school improvement
- focus on early intervention for students at risk of underperformance
- are flexibly implemented to address local needs
- encourage parent and community engagement
- are based on robust data and evidence that can inform decisions about educational effectiveness and student outcomes.

4 Funding architecture

4.1 Funding principles

The panel's recommendations for new funding arrangements for Australian schooling have been developed with reference to a number of interconnected fundamental principles, which have guided the consideration of issues and shaped the design of a new funding model. The principles draw on the panel's terms of reference, as well as representations and submissions to the review, commissioned research, and extensive discussions.

The principles are:

- Public funding should be allocated in a fair, logical and practical way so that schools with similar characteristics and student populations have similar access to public funding, taking into account, in the non-government sector, the capacity for a contribution from private resources.
- Funding should be allocated to schools and students on the basis of need, in particular to ensure that differences in educational outcomes are not the result of differences in wealth, income, power or possessions.
- Funding from all sources should be sufficient to ensure that all Australian students have the opportunity to receive a high standard of schooling.
- Funding should support a diverse range of school provision and allow choice by parents alongside their responsibility (in most cases) to make a more substantial private contribution when electing to enrol a child in a non-government school.
- Funding arrangements should complement and help to drive broader school reform so that the educational outcomes of all students improve over time, particularly the outcomes of students from disadvantaged backgrounds.
- Funding arrangements should embody the partnership that has developed between Australian governments and the non-government school sector in funding and delivering schooling in Australia.
- Funding arrangements should be more transparent.
- Public funding should provide demonstrable value for money and recipients should be accountable for the proper use of public funds.

The principles set out in this chapter should also guide decisions by governments in implementing and negotiating new funding arrangements for schooling.

Fair, logical and practical allocation of public funds

Public funds should be allocated in a fair, logical and practical way so that schools with similar characteristics and student populations have similar access to funding. As shown in Chapter 1.1, a distinctive feature of the Australian schooling system is the large non-government sector. In this sector, there is a high degree of variability among systems and schools in their capacity to make a private contribution towards meeting the resourcing needs of a school. Arrangements for allocating public funds should reflect these differences within an overall framework that ensures that schools with similar characteristics and students have access to sufficient resources to provide a high standard of schooling.

Funding in response to need

Extra funds should be allocated towards systems, schools and students in response to need. The panel has adopted a goal that differences in educational outcomes should not be the result of differences in wealth, income, power or possessions. Australia needs to make a serious and systematic effort to reduce the disparities that exist at present between the educational performance of students from high and low socioeconomic backgrounds. All students should be able to access a high standard of education regardless of their background and where they live, and funding arrangements should provide them with the resources, support and opportunity for them to reach their full potential.

Funding from all sources must be sufficient

Total funding for Australian schools from government and private sources, including philanthropy, should be sufficient to allow students the opportunity to receive a high standard of schooling.

Support for a diverse range of schools

A strength of Australia's schooling system is the diverse range of schools and schooling experiences available to students and their parents across the government and non-government sectors. Arrangements for public funding should foster this diverse provision and allow choice by parents. Alongside this, parents choosing a non-government school should in general expect that they will make a larger private contribution than if they enrolled their child in a government school. However, there should also be recognition that, in certain circumstances, parents sending their children to a non-government school have no or only a very limited capacity to make a financial contribution.

Driving broader school reform

As outlined earlier in this report, Australia faces considerable challenges in addressing the decline in our overall school performance, as well as in making serious inroads to improve the equity of outcomes. Given this, funding arrangements cannot be treated as an end in themselves, but must be deployed consciously and strategically to address these performance challenges. Funding arrangements need to complement and drive the broader school reform agenda, with a particular focus on improving teaching quality and effectiveness through better recruitment, selection, training, professional learning and standards. Other important elements of these reform directions are strengthening school leadership, developing and sustaining innovation, engaging parents and the community in better ways, and implementing more sophisticated forms of accountability and transparency. The panel's proposals in this area are set out in Chapter 5.1.

Partnership between governments and the non-government sector

An important feature of Australia's schooling system is the role of the states and territories as operators and primary funders of government schools. They also regulate and partially fund non-government schools. Another important feature is the large non-government sector organised through systems and individual schools. In such a complex network of delivery, funding and regulation, responsibility for outcomes is by necessity shared. This can only work effectively in a genuine, long-term partnership involving all levels of government and across schooling sectors. The roles and responsibilities of these parties need to be articulated clearly so that they are located at the most appropriate level. There also needs to be greater coherence in how the funding arrangements operate overall, so that schools are funded appropriately for need regardless of sector and jurisdiction.

Transparency and clarity

Existing funding arrangements are very complex. A key principle for the panel has been to ensure that the recommended funding arrangements have a clear, coherent and logical design. This needs to be reinforced through greater public transparency about how systems and schools are funded at all levels so that it is easier for parents, educators and the broader community to understand in practice how these arrangements take effect at the local level. Parents should be able to see why their child's school is funded at a certain level. Schools should be able to readily understand why school systems and individual schools receive the funding they do, and how changes to their size or composition of their student body will affect funding in the future. The public should be able to see the quantum of public resources Australia invests in schooling in order to understand what is being achieved.

Value for money and accountability

Schooling represents a huge public and private investment in Australia's children and young people. This report calls for further significant investment. The effectiveness and efficiency with which these resources are deployed are vital to making the case for that investment. Therefore, funding arrangements must ensure proper use of and accountability for public funds. Moreover, funding arrangements need to be developed and implemented in a way that ensures limited public funds are directed where they are needed and that the effectiveness of this investment can be demonstrated by credible and robust evidence. The obligations on recipients of public funding should be clear and effective.

Recommendation 8

The Australian Government, in collaboration with the states and territories and in consultation with the non-government sector, should develop and implement a new funding model for schools based on the principles of:

- fair, logical and practical allocation of public funds
- funding in response to need
- funding from all sources must be sufficient
- support for a diverse range of schools
- driving broader school reform
- partnership between governments and across sectors
- transparency and clarity
- value for money and accountability.

4.2 A resource standard for Australian schools

The panel believes that a schooling resource standard is needed as the starting point for a new funding system for Australian schooling that is transparent, fair, financially sustainable and educationally effective. This schooling resource standard would replace AGSRC and provide a basis for all recurrent funding for schooling, whether from the Australian Government or state and territory governments.

This chapter sets out the panel's recommendations for this new schooling resource standard. It builds on the analysis of issues in the earlier parts of the report, in particular relating to the imperatives of improving both our overall performance in schooling outcomes, as well as addressing concentrations of disadvantage to achieve greater equity in educational outcomes. Chapter 4.3 sets out how this would be funded from public and private sources, while Chapter 4.4 discusses the significant implications for governance and regulation of the schooling system.

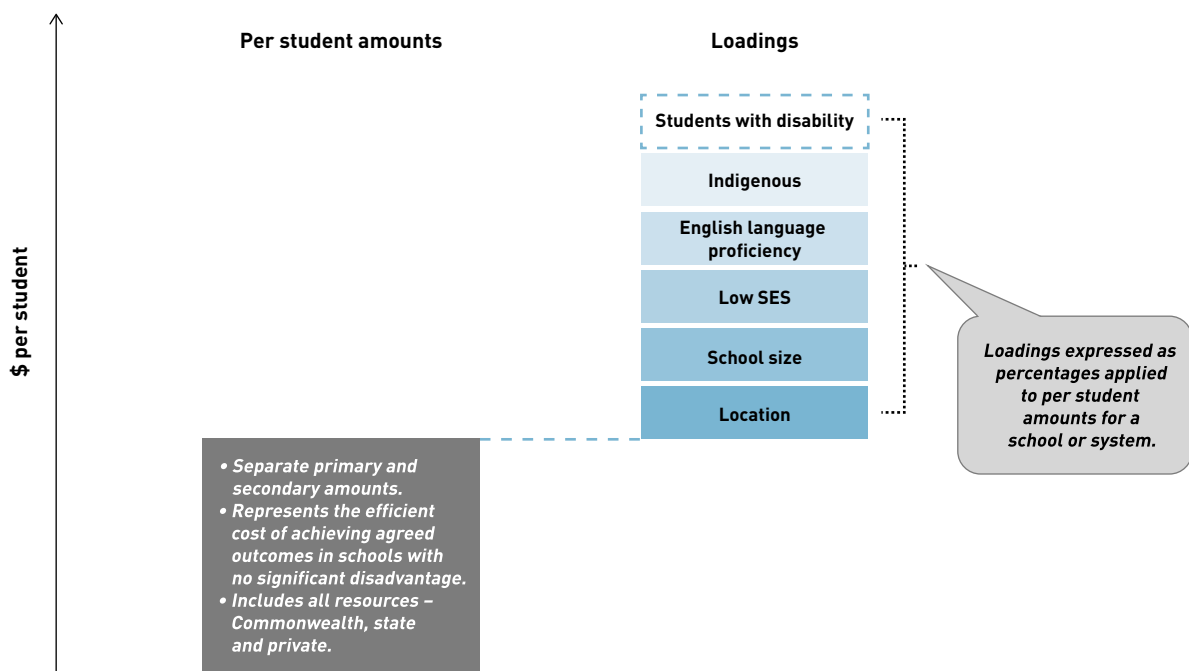
4.2.1 A schooling resource standard

The panel considers that a new schooling resource standard is both feasible and desirable as the starting point for a fresh approach to recurrent funding for all Australian schools. This section provides an overview of some of the key features of the proposed standard, while later sections set out the details and rationale. The major characteristics of the resource standard are summarised in Figure 50 and Box 12. It would comprise:

- **a per student dollar amount for primary and secondary students** – this represents the recurrent resources required to enable students who attend schools with minimal levels of educational disadvantage the opportunity to achieve agreed national educational outcomes
- **a series of loadings for student- and school-based sources of disadvantage** – these would apply where additional resources are needed to provide the same opportunities in schools or for students with minimal educational disadvantage. These additional loadings would be expressed as percentages of the per student amounts. They would cover school size and location, as well as students from low socioeconomic backgrounds, Indigenous students, those with limited English language proficiency and students with disability.

These resources, if efficiently and effectively applied over time, would enable students to achieve agreed educational outcomes. While resources alone are not the answer to Australia's educational challenges, it is important that they are used to maximum effect and weighted towards meeting the greatest need.

Figure 50: Outline of the schooling resource standard



Box 12: Schooling resource standard – key features

- Comprises primary and secondary per student amounts plus loadings for additional costs or disadvantage.
- Resource levels would be derived from those actually used by a group of schools considered to be already achieving agreed educational outcomes.
- Increases the focus of funding policy on achievement of outcomes, evidence, performance and accountability.
- Would be indexed annually and reviewed periodically by a National Schools Resourcing Body.
- Desirably, would be used to allocate all general recurrent funding from the Australian and state and territory governments to government and non-government systems and schools.
- Covers recurrent costs only including maintenance—capital would be funded separately.

4.2.2 Rationale for a resource standard

Across many areas of human services, governments have sought to improve both the delivery of these services and their effectiveness by linking appropriate funding to defined standards of quality and outcomes. They have also sought to take into account differences in economic and social need of those receiving the service. Such changes have often been accompanied by independent accountability processes to ensure that the policy goals of governments are being achieved and services delivered at the expected level of quality.

In schooling, however, the key benchmark for funding Australian schools—AGSRC—is not sensitive to the varying needs of schools with very different characteristics and student cohorts and reflects historical rather than desired expenditure levels (see Chapter 2.2).

A resourcing approach based on a per student amount plus loadings for various kinds of additional costs or disadvantage is not uncommon in school funding arrangements internationally and in Australia at the state and territory government level. Other than some small loadings in the current SES funding model for remoteness and majority Indigenous student schools, the Australian Government has tended to provide targeted programmatic funding towards these needs. Under a resource standard, targeted programs would be replaced by various transparent loadings to allow for the additional costs that will be experienced on average in some schools in meeting agreed national educational outcomes due to the characteristics of the school itself (for example, size and location) or of its student population (for example, the proportion of students who are Indigenous, from low socioeconomic backgrounds, have a disability or limited English language proficiency).

Research evidence set out in Chapter 3.2 points to the impact of student background on learning, as well as how this effect is amplified when disadvantage is concentrated within a school. The literature on effective schools shows that schools can make a greater contribution to student learning if they not only have the necessary resources, but also the capacity and the discretion to use them effectively by focusing on educational and school management processes that work.

Lifting Australia's overall schooling performance is a broader challenge than addressing various forms of disadvantage, as many underperforming students are not from disadvantaged backgrounds. However, there are risks in funding schools on a direct measure of student educational achievement as it can introduce perverse incentives if schools improve their reported overall educational performance. Instead, the panel believes that it is preferable to base funding on more objective characteristics of students and schools that are known to have a significant association with low educational achievement. There should be flexibility to review general levels of funding and the way it is allocated to the whole schooling system on a regular basis. Funding also needs to drive broader schooling reform directions focusing on improving teaching quality and school effectiveness as discussed in Chapter 5.1.

In the panel's view increased resources are necessary, but alone are insufficient to improve educational outcomes. A wealth of evidence and research points to the complexity of the factors that influence what students learn and achieve during the course of their schooling, including the need to embed a culture of high expectations of all students regardless of background, improve the quality of instruction, and make the organisation of schools more effective in their use of available resources. The real challenge is to make resource use more effective by building the capacity of school systems and schools to manage and deploy them with appropriate public accountability for what they achieve.

The new schooling resource standard will indirectly support the achievement of nationally agreed educational outcomes in a dynamic way as expectations evolve and data improves to measure them over time. This will occur in four ways:

- The initial step of linking the resource standard to educational outcomes will help propel the focus of funding policy towards issues of educational effectiveness. This will demand better data and measures of outcomes and outputs, the provision of transparent evidence of educational performance and clarity of accountability for the overall performance of Australia's schooling system. It will require richer data, especially in relation to low-performing students and those with different types of educational disadvantage.
- Governments will be able to periodically review and adjust the educational aspirations and targets agreed between them as a basis for setting the schooling resource standard. This means that the resource standard will remain contemporary and reflect changing aspirations for outcomes over time.

- The range of educational outcomes taken into account in setting the resource standard should broaden beyond the existing measures. This will encourage improvements in the quality and use of outcomes data by systems and schools and in turn provide the basis for more effective accountability and public reporting to parents, the community and governments for the outcomes students achieve.
- This improved data will also provide the necessary public assurance that Australia's investment as a whole in schooling is effective and efficient in the sense that it is grounded on evidence that the level of public funding in particular gives students the opportunity to achieve agreed outcomes.

Under the resource standard, the same per student primary and secondary amounts would be applied in calculating the resourcing for all schools and the same loadings would potentially apply to all schools depending on their particular characteristics and those of their students.

In order to seriously address the challenges Australia faces—keeping our schooling system internationally competitive, improving equity of outcomes, and better recognising different levels of need across schools, sectors, jurisdictions and systems—a new approach is needed to resourcing Australian schools.

4.2.3 Linking funding to outcomes

In the process of developing the schooling resource standard, the panel recognised that the successful implementation of the standard would require the development of a coherent and workable methodology. The panel commissioned the Allen Consulting Group to assist in developing the details of this methodology and testing its feasibility.

This methodology starts by specifying the student outcome benchmark that should form the basis of the per student amounts in the resource standard. It then identifies a group of schools called 'reference schools' that currently meet this benchmark based on *My School* data on performance in literacy and numeracy. *My School* financial data for these schools is used as the basis for estimating the per student amounts in the resource standard. A process for checking the composition of this group of schools using supplementary outcomes data is an important part of validating the selection of schools. In future years, this benchmark can be changed to reflect evolving aspirations and broader measures of outcomes.

It is important that schools from all sectors—government, Catholic and independent—are considered for inclusion in the reference group. A resource standard intended to apply to all schools regardless of sector should draw on the most effective schools without arbitrarily limiting their scope by sector. In particular, the schooling resource standard per student amounts should be set at a level at which it can be shown that high performance is achievable over a sustained period of time for students with minimal levels of educational disadvantage.

The initial per student amounts canvassed in this report are structured around the distinction between primary and secondary students. This reflects available data and historical differences in costs between levels of schooling. However, the panel acknowledges that there may be arguments for different relativities between primary and secondary amounts or for a structure based on year levels, if it can be shown, for example, that additional resources at primary level could be applied in a way that effectively reduces later educational gaps in performance. This issue should be examined further in future reviews of the resource standard by the proposed National Schools Resourcing Body.

A student outcome benchmark

The student outcome benchmark specifies the level of outcomes that schools should be expected to achieve. The panel believes that the resource standard should be aspirational and aim to raise the level of Australian schooling outcomes to those of the best performing countries on international measures such as PISA, as well as contribute to the achievement of existing agreed goals set out in the National Education Agreement and the Melbourne Declaration.

The purpose of setting an initial student outcome benchmark in the context of this review is to identify those schools which are already attaining a high level of outcomes for their students. The panel agrees that this focus on the outcomes of schooling should not dwell solely on educational achievement and should embrace a broader sense of the goals of education to the extent possible. It should include attendance, retention and completion as well as post-school destinations. It should also, to the extent possible over time, acknowledge the formative role of schooling in shaping young people who are honest, resilient, optimistic, tolerant, enterprising and ethical with a commitment to democracy and fairness as envisaged in the Melbourne Declaration.

In practice, however, data are either currently not available at all or not available on a nationally consistent basis for these broader outcomes and reliable performance measures would need to be developed. The only consistent national data currently available for all schools relating to schooling outcomes are those from NAPLAN. NAPLAN scores provide a standardised measure of literacy and numeracy and are administered annually across schools in all Australian states and territories to students in Years 3, 5, 7 and 9.

While NAPLAN results are only a partial measure of schooling outcomes, they provide important information on key aspects of school and student performance against national assessment frameworks agreed by governments and an indicator of likely further student progress in schooling and post-school education. For this reason, the panel considered that NAPLAN represents an acceptable starting point for testing the feasibility of developing a schooling resource standard, subject to confirming the selection of reference schools and further work as outlined below.

An important consideration in setting an appropriate outcomes benchmark is the broader targets for school completion and post-school educational attainment levels set by the Australian Government and state and territory governments. If these targets are to be met, the vast majority of students will need to be exceeding minimum NAPLAN standards on a sustained basis by Year 9.

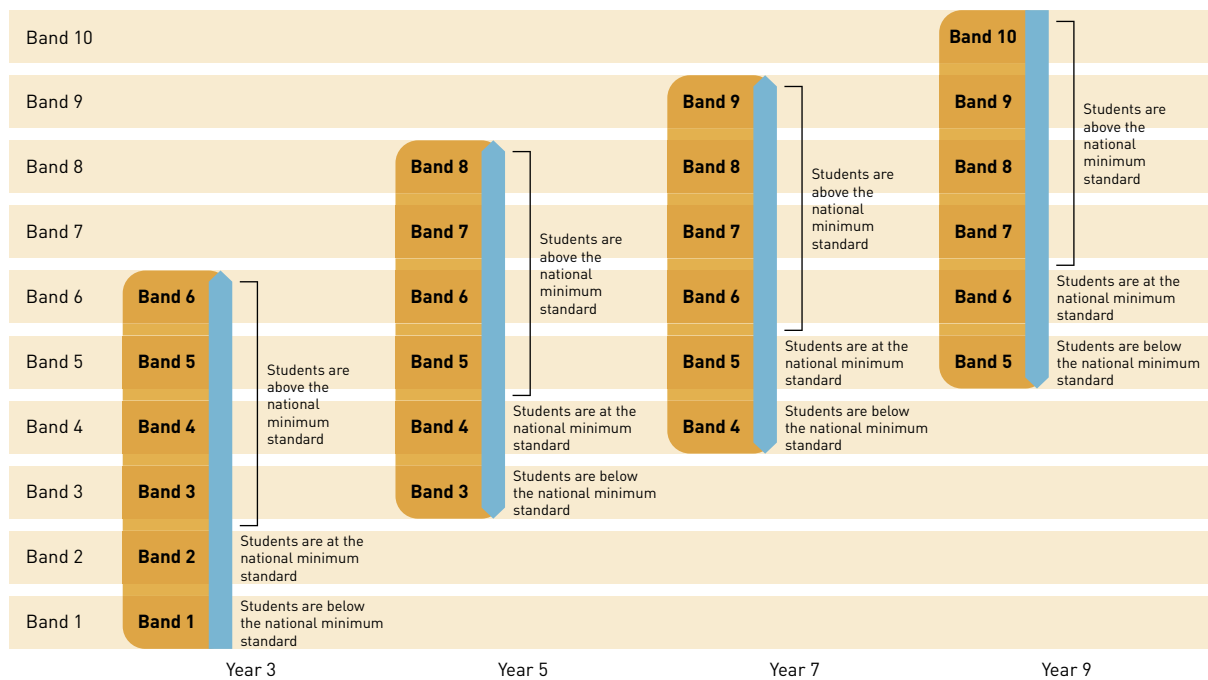
Identifying reference schools

Figure 51 sets out the NAPLAN achievement bands used at Years 3, 5, 7 and 9. In each year, students in the lowest band are regarded as performing below the national minimum standard, while those in the band above this are performing at the national minimum standard. Only those students performing in higher bands are considered proficient.

Setting an outcomes benchmark for reference schools is inevitably a matter for judgment, with the level of expectation embodied in it balanced against the requirement for the reference group of schools to be sufficiently broad that realistic preliminary per student resource amounts can be estimated. The initial student outcome benchmark adopted in this report is:

Reference schools are those where at least 80 per cent of students are achieving above the national minimum standard, for their year level, in both reading and numeracy, across each of the three years 2008 to 2010.

Figure 51: NAPLAN assessment scale



Source: ACARA 2010b.

This is a demanding benchmark as it requires schools to systematically embed successful educational practices in all year levels to **achieve and sustain performance consistently above the national minimum standard**. This follows from two aspects of the benchmark:

- Firstly, it is based on the proportion of students achieving above the national minimum standard, so students achieving only at the national minimum standard do not count towards whether a school meets the benchmark for being a reference school.
- Secondly, the requirement to achieve the outcome benchmark in each year for three years means that the reference group of schools is comprised of those with consistently high proportions of students achieving above the national minimum standard.

Consequently, only 1408 schools (16 per cent of the total) currently meet this benchmark. While a large proportion of schools achieve the 80 per cent benchmark in any one grade, year or domain, the proposed outcome benchmark would only be met if the school as a whole meets every one of these in each of the three years. In secondary schools, only Year 9 performance has been used due to the lack of national consistency on whether Year 7 is considered part of primary or secondary school, and the timing of the test only three months after Year 7 students commence secondary school.

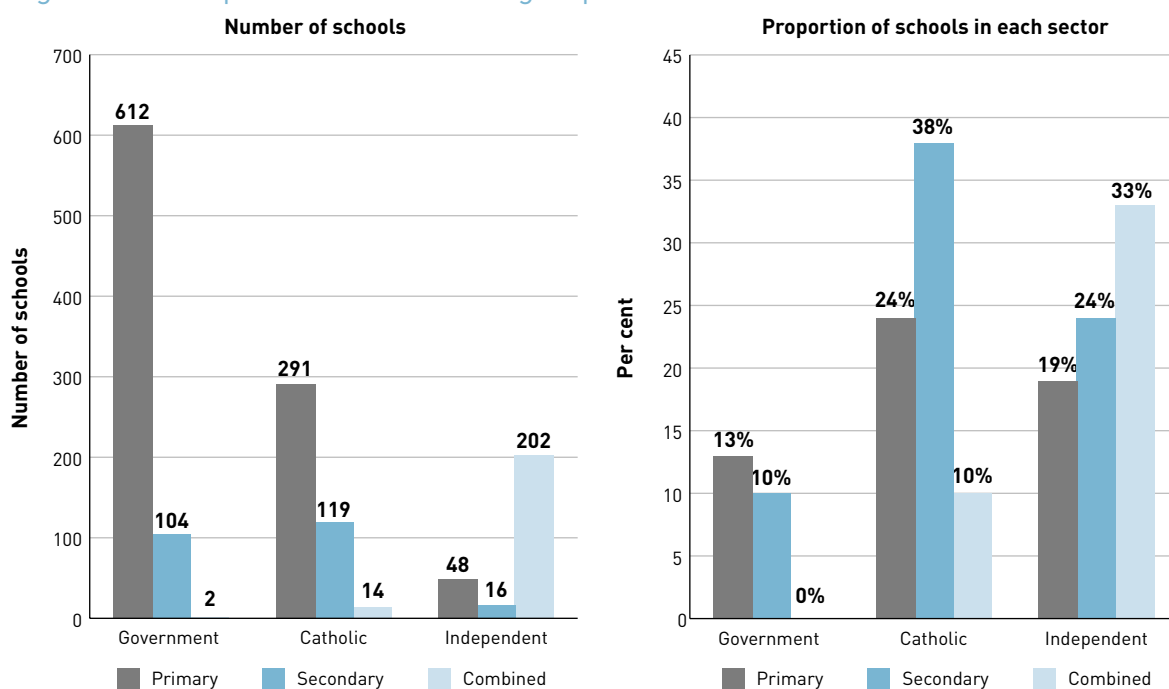
Before adopting the initial benchmark, the panel requested that the Allen Consulting Group examine the number and composition of schools that would meet a 90 per cent benchmark. Using this higher benchmark would have reduced the number of reference schools to only 271 in total (3 per cent of all schools), meaning that the reference group of schools would be too narrowly based and likely to contain too many atypical schools. The panel concluded therefore that a benchmark of 80 per cent was more appropriate.

However, the panel notes that other benchmarks can be chosen and that the architecture advocated by the panel can easily accommodate the use of other benchmarks, either initially or over time.

Characteristics of reference schools

Most of the identified reference schools are in the government sector (51 per cent), while 30 per cent are in the Catholic sector and 19 per cent in the independent sector (see Figure 52). Government schools are particularly prominent at the primary level (64 per cent of primary reference schools), with non-government schools more prominent at the secondary level (56 per cent of secondary reference schools). Almost all of the combined schools in the reference group are independent schools. Figure 52 also shows that a higher proportion of non-government than government schools meet the student outcome benchmark, particularly in secondary and combined schools.

Figure 52: Composition of reference group schools



Source: Allen Consulting Group analysis of ACARA data, unpublished.

The reference group also includes many schools performing well above the 80 per cent benchmark, indicating that these schools are able to perform at levels that would be on a par with or exceed international benchmarks. For example, among primary reference schools, 31 per cent have been identified as having at least 35 per cent of students performing in the top two proficiency bands compared to 1 per cent of non-reference primary schools.

It is important to bear in mind that reference schools are not selected to be representative of all schools. Rather, they were selected on the basis of sustained educational achievement and as a starting point for estimating per student resource requirements for schools with minimal levels of educational disadvantage.

Next steps

As a first step in validating the selection of reference schools, the performance of secondary and combined reference schools in PISA 2009 was used to crosscheck. This showed that, generally, the high-performing secondary and combined schools in NAPLAN are also the high-performing schools in PISA.

Given the scope of outcomes data available to the panel for the purposes of the review, it is important that the initial selection of reference schools be validated with the states and territories and the non-government sector using data on a wider range of outcomes available at state and territory level.

To prepare for this, the Allen Consulting Group worked with the Centre for Research on Education Systems at The University of Melbourne to identify potential measures. Advice from the centre highlighted the importance of whole-of-cohort measures of student outcomes such as NAPLAN to ensure that outcomes reflect the experiences of all students. Measures that capture the success of only part of school cohorts will not reflect the costs of provision for other groups and only partially reflect school outcomes. In the short term, nationally consistent whole-of-cohort data in addition to NAPLAN is limited to school attendance, with Year 12 retention rates and post-school destinations available as additional points of reference in some states only. This exercise may lead to additions or subtractions from the initial list of reference schools.

In the longer term, a broader range of nationally consistent outcome measures should be used as the basis for selecting reference schools. The Centre for Research on Education Systems was also asked to advise on other potential outcome measures including Australian Tertiary Admission Rank scores, senior secondary subject assessments, vocational education and training unit completions and student outcomes against state and territory curriculum frameworks. However, major limitations with each of these measures were found. Student and parental satisfaction surveys could also be used in future.

Recommendation 9

The Australian Government, in collaboration with the states and territories and in consultation with the non-government sector, should:

- initially base the per student component of the resource standard on an outcomes benchmark that at least 80 per cent of students in reference schools are achieving above the national minimum standard, for their year level, in both reading and numeracy, across each of the three most recent years of NAPLAN results
- conduct additional research to validate the composition of the reference group used for setting the per student amounts to apply from 2014 onwards
- broaden over time the scope of student outcomes covered in the benchmark to include other nationally consistent, whole-of-cohort measures
- review regularly the scope, methodology and data required to set the student outcomes benchmark.

4.2.4 Scope of costs

Capital costs

The panel believes that any policy for resourcing schooling should include the ability to address the capital costs of schools, recognising the different ways in which these are funded.

Against a background of concern about the quality of capital infrastructure in many schools, as well as the future capital needs of schools in Australia (see Chapter 2.4), there are strong public policy arguments for identifying and developing a capital cost element within a resource standard. This would enable school systems and schools to plan for future capital needs with greater certainty than under current arrangements. The distinction between capital and operating costs is not always clear-cut and depends on how a system or school manages its available resources.

However, the panel believes that including a capital component in the resource standard at this time is not feasible for a number of reasons. There are significant differences between sectors and schools in the age and condition of their facilities as well as in their approaches to capital financing through private borrowings or government capital works appropriations. Including a capital component in the standard could create perverse incentives by discouraging the consolidation of existing schools when there is a strong educational case for doing so or encouraging the opening of new schools, where there is already capacity in existing schools. Moreover, it is not possible to estimate capital funding levels or future capital requirements using current national financial and planning data.

Consequently, the resource standard proposed by the panel is a recurrent resource standard, which includes a provision for general maintenance and minor acquisitions (such as computers and general equipment below established capitalisation thresholds), but does not include capital costs associated with debt servicing or the acquisition of fixed assets such as land and buildings. Section 4.3.3 sets out the panel's proposed approach to funding capital through an expanded but separate stream of funding. In time, the development of a separate capital standard would complement the recurrent resource standard and guide government investment in school infrastructure.

Sector, system and school-level costs

Sector costs are those relating to all schools regardless of whether they are government or non-government schools. They include the regulation of schools, certification of teachers, national school testing and development of curriculum. As these costs are largely met by governments and are not incurred by schools directly, it is not appropriate to include them in the resource standard.

Schools in Australia are organised on various bases, with most schools being part of government or non-government systems, and others independent of such affiliations. Systems undertake a number of functions on behalf of their member schools, which would be undertaken at school level in non-systemic schools. It is important for the sake of comparability in setting the resource standard across different types of schools that it recognises the full costs of delivering schooling services, regardless of whether these are performed within a stand-alone school or centrally or regionally as part of a system. This means that system costs should be included in the schooling resource standard. The *My School* data has been compiled in a way that ensures that it is as comparable as possible despite these differences in the way schools operate, and therefore provides a reasonable basis for deriving an initial estimate of the resource standard.

Adjunct service costs

Adjunct service costs comprise expenditures that are not consistently incurred by schools across jurisdictions and sectors, that is, they may be incurred by other areas of government. Examples include health and welfare costs and student transport subsidies, which are largely funded through agencies other than those responsible for education, although some schools also bear these costs to varying degrees.

However, including these costs in the resource standard could lead to cost shifting between government portfolios and different levels of government. The panel's preferred approach is that these costs are dealt with outside the resource standard and estimated as a separate resourcing requirement on funding bodies akin to a community service obligation.

Recommendation 10

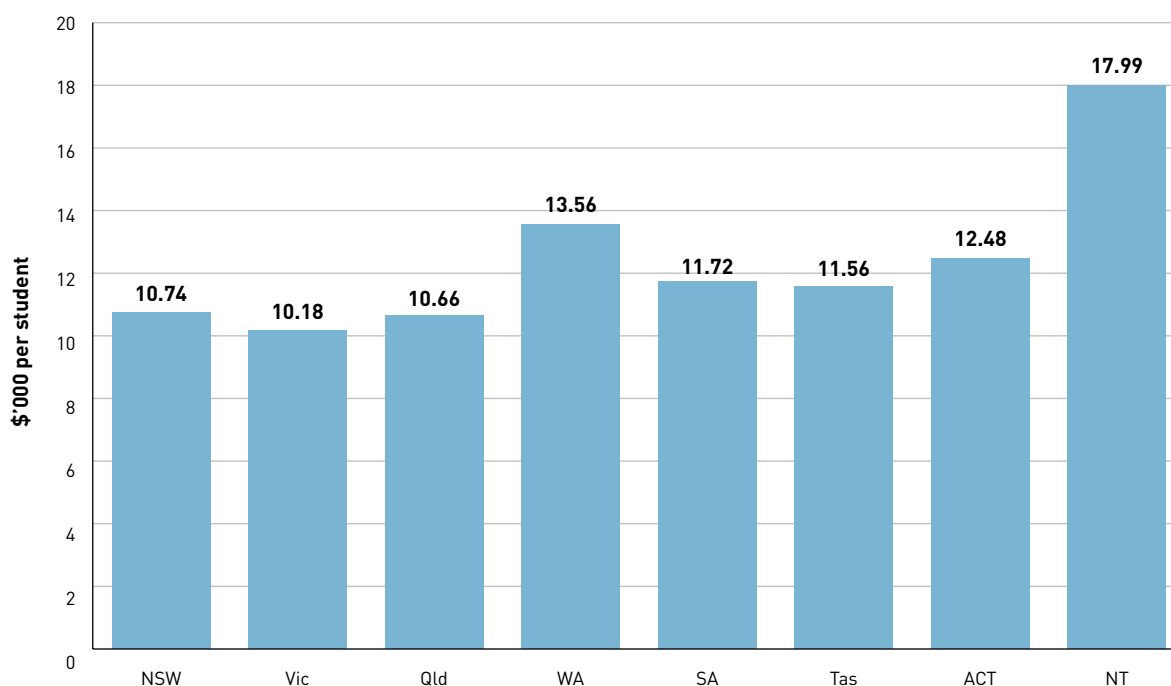
The schooling resource standard should:

- be a recurrent resource standard, which includes a provision for general maintenance and minor acquisitions below an established capitalisation threshold but does not include capital costs
- include the full costs of delivering schooling services regardless of whether these are delivered in an independent school or a systemic school
- exclude adjunct service costs.

4.2.5 State adjustments

National schooling resource standard per student amounts may need to be adjusted to reflect differences in costs across jurisdictions. As shown in Figure 53, there are at present substantial differences in average net recurrent income per student by state and territory in government schools.

Figure 53: Net recurrent income per government sector student by state and sector, 2009



Source: ACARA dataset 2011.

These differences in average per student resources are likely to reflect several factors:

- socio-demographic variation across jurisdictions because some states and territories have student populations with greater levels of need than others
- variation among states and territories in the capacity and willingness of governments and parents to fund schooling relative to other priorities
- differences in costs among states and territories due to variations in labour market conditions and general salary levels or in education sector salaries as a result of wage negotiations

- policy differences among state and territory governments on desired service levels as expressed in class sizes, the provision of teachers' aides and learning support teachers and student welfare support
- differences in jurisdictional size and population density, which can affect the average size of individual schools, as well as economies of scale in administration and in the operation of school networks
- variations in efficiency in the provision of schooling for the same scope or quality of education outcomes.

The resource standard will capture some of this variability through loadings.

A key principle that has guided the panel is that the schooling resource standard should be a national one, but with some flexibility in how it is applied. This means that it should not be influenced by deliberate and discretionary policy differences between jurisdictions such as wage levels, student-teacher ratios and class sizes which might create distortions in government policy and funding decisions. Any state-based adjustments in applying the schooling resource standard per student amounts would need to apply to all sectors within each jurisdiction.

The panel believes that the best way of achieving this outcome would be through negotiations between the Australian Government and state and territory governments in consultation with the non-government sector. These should be guided by the following principles:

- the states and territories should have an incentive to take part in new funding arrangements
- the states and territories and the Australian Government should share any efficiencies in the provision of education on the basis of the schooling resource standard
- no state or territory should be disadvantaged in relation to Commonwealth Grants Commission or GST allocations as a result of their cooperation with the Australian Government in implementing the schooling resource standard.

These issues are discussed further as part of the funding arrangements in Chapter 4.3.

Recommendation 11

The Australian Government should negotiate with state and territory governments and consult with the non-government sector with a view to implementing a national schooling resource standard that allows flexibility in how it is applied across jurisdictions. This process should be guided by the following principles:

- the states and territories should have an incentive to take part in new funding arrangements
- the states and territories and the Australian Government should share any efficiencies in the provision of education on the basis of the schooling resource standard
- no state or territory should be disadvantaged in relation to Commonwealth Grants Commission or GST allocations as a result of their cooperation with the Australian Government in implementing the schooling resource standard.

4.2.6 Application

The primary application of a schooling resource standard would be as a basis for the Australian Government to determine:

- its total funding contribution to government and non-government systems and schools
- its allocation of that contribution across government and non-government systems and across individual, non-systemic schools.

The resource standard would replace AGSRC for these purposes. That is, the resource standard needs to be able to be applied both where the Australian Government is a direct funder of individual independent schools and where it is an indirect funder of schools through school systems, such as those operated by the Catholic and some independent system authorities. This requires greater sophistication and precision in the development of a resource standard for non-systemic schools. This requirement for precision is especially the case for low socioeconomic status non-systemic schools where they are largely funded by governments.

Parallel to this, the resource standard could also be used by state and territory governments to set the desired level of aggregate funding from state and territory governments for both government and non-government sectors in each jurisdiction. This would signal a greater commitment by state and territory governments to the funding of non-government schools as part of the new funding arrangements, as well as to the adequate funding of government schools. The same would be the case for Australian Government funding of government schools.

The resource standard proposed by the panel is not intended to completely replace the more detailed funding formulas used by state and territory governments to allocate resources to the individual schools they operate. Similarly, it is not intended to replace the funding formulas used by non-government systems, where these reflect a more specific and localised assessment of funding needs. However, it would desirably be used by state and territory governments to inform resource allocation to individual non-government systems and schools. This would help to simplify school funding arrangements by reducing the number of different benchmarks currently in use and add greater coherence to the funding system in Australia.

Government and non-government systems that agree to the full implementation of the schooling resource standard would receive funding from the Australian Government based on it. Systems would still be able to moderate the allocation of these funds based on their own localised assessment of funding needs provided the allocation method was consistent with the overall approach of the schooling resource standard.

Systems would be required to be transparent about their allocation model and to advise and report publicly when their allocation of funding to individual schools within their systems deviated significantly from allocations suggested by the schooling resource standard for a school.

Where a non-government school is not part of a system, public funding would continue to be paid directly to the school.

A resource standard could assist in identifying total investment requirements over time for school education in Australia and provide a more reliable and relevant benchmark against which costs and outcomes for school systems and schools can be assessed. A resource standard, particularly if applied by all schooling systems, would also provide assurance to parents, taxpayers and communities that all Australian schools have the financial resources required to deliver defined and appropriate educational outcomes for all Australian children.

Recommendation 12

The schooling resource standard should be used by the Australian Government as the basis for determining its total recurrent funding for government and non-government systems and schools and for the allocation of that funding across systems and schools. It should also be adopted by the states and territories to guide their total recurrent funding for government and non-government schools and the allocation of that funding to individual non-government systems and schools.

4.2.7 Per student amounts – indicative estimates

A preliminary methodology for estimating the resource standard per student amounts was developed for the panel by the Allen Consulting Group. The methodology and the data it uses are described in Appendix H.

Based on this, the panel has concluded that, using 2009 financial data, the indicative primary and secondary amounts would be as set out in Table 19. These indicative amounts provide a plausible and acceptable starting point for further work. However, it is not possible to propose any firm estimates of the per student amounts until further work has been undertaken with the states and territories and the non-government sector as described below.

Table 19: Schooling resource standard per student amounts – indicative estimates 2009 (excluding loadings)

	Primary	Secondary
Indicative estimate (excluding loadings)	About \$8,000	About \$10,500

Two streams of work are required to develop firm estimates of the resource standard per student amounts:

- **Stage 1:** Updated estimates will be required by mid-2012 to facilitate negotiations between the Australian Government, the states and territories and the non-government sector over the implementation of the new funding arrangements for schools. These could be based on 2010 *My School* financial data, which should be available in early 2012. These updated per student amount estimates would enable governments to legislate in the second half of 2012 for the new arrangements to commence from the beginning of 2014.
- **Stage 2:** Actual per student amounts to apply from the beginning of 2014 will be required by early 2013 at the latest, so that systems and schools have as much notice as possible of potential impacts on them in the first year of the new arrangements. These could be based on 2011 *My School* financial data, which should be available in early 2013.

As discussed in Chapter 4.4, the panel believes it is critical for the successful implementation of the resource standard that all parties have confidence in it. This requires a process that is open and transparent and in which the Australian Government, the states and territories and the non-government sector all share responsibility for oversight. It also requires extensive expertise and technical knowledge about data on schooling outcomes and costs. For these reasons the panel is recommending the establishment by legislation of a specialist National Schools Resourcing Body with

the necessary degree of independence to advise governments on the resource standard. This body, once established, will have responsibility for the streams of work outlined above.

However, given that legislation and establishment of the new body will take some months to implement and work on the updated estimates needs to be progressed as quickly as possible, there will need to be an interim process to develop these estimates in the first half of 2012. The work required in this first stage is likely to include:

- updating data sources to take account of 2011 *My School* NAPLAN data
- validating and finalising the reference schools by using available school-level data on a broader range of educational outcomes
- further refining the estimation methodology as described in Appendix H
- testing and proving of the proposed loadings discussed later in this chapter.

While the National Schools Resourcing Body would commence operations as soon as possible and would ultimately be responsible for progressing all of this work, the Australian Government should, in the meantime, facilitate a collaborative process with the states and territories and the non-government sector to enable Stage 1 of this work to commence immediately.

Recommendation 13

The Australian Government should work with the states and territories and the non-government sector to further refine the indicative schooling resource standard amounts for primary and secondary students. This should occur by mid-2012 to facilitate negotiations over the implementation of the new funding arrangements for schools. This work should commence immediately with the National Schools Resourcing Body to take responsibility for progressing it as soon as it is established.

4.2.8 Loadings

The schooling resource standard also includes loadings for student- and school-based sources of disadvantage. Key issues considered by the panel here included:

- the general rationale for loadings
- the factors for which loadings should be added to the per student amounts
- how loadings should be structured
- indicative ranges for the loadings
- further work to develop initial estimates of loadings and then to test and improve these.

Rationale for loadings

Loadings directly address the panel's equity objective to ensure that differences in education outcomes are not the result of differences in wealth, income, power or possessions. They are intended to represent the additional efficient cost, funded from all sources, to give schools with a particular characteristic or with particular types of students the same opportunity to achieve nationally agreed educational outcomes as schools that do not attract loadings. They are not a guarantee that such schools will achieve those outcomes as this depends also on the effectiveness with which those resources are deployed.

Loadings are also intended to recognise that, in all sectors and states, there are schools with vastly different characteristics and student cohorts. The variability in the cost of educating students in these schools cannot be captured adequately through an average measure such as AGSRC. An approach

based on per student amounts plus appropriate loadings for specific types of children and schools provides a fairer and more transparent basis for funding schools.

Linking loadings to an estimate of the cost of bringing certain types of schools up to nationally agreed educational outcomes is also meant to drive a greater focus on improving outcomes in these schools over time. This approach requires much richer and more sophisticated data on student performance and a more forensic use of that data to bring about change in educational practices and expectations.

Moreover, the loadings are meant to be dynamic and evolve over time in response to changing performance and need. They cannot be set in stone and will be subject to regular, periodic and independent review along with the other elements of the resource standard.

Factors requiring loadings

A key consideration in the determination of loadings is identifying legitimate factors for when a loading should be applied. The principles taken into account by the panel in selecting those factors where a loading is recommended are that they should:

- relate to objective and measurable characteristics of students and schools
- be evidenced by a demonstrable independent correlation with poor educational outcomes or higher costs
- be able to be calculated at school level using available and reliable nationally consistent data
- help target resources in the most educationally effective way
- be relatively simple to understand and apply.

Taking into account submissions to the review and its own commissioned research, the panel concluded that the schooling resource standard should initially include loadings for:

- school size and location
- students from low socioeconomic backgrounds
- students from Indigenous backgrounds
- students with limited English language proficiency.

The panel recognises the importance of considering the needs of students with disability in a resource standard that covers the recurrent cost of educating all students. However, at the present time there are several significant obstacles to estimating a loading to cover the additional cost of making the educational adjustments needed for students with disability within a recurrent resource standard. These include:

- the lack of a nationally agreed approach for identifying students with disability and the extent of educational adjustment required to support them. However, a model for collecting nationally consistent data has been trialled with this work continuing through MCEECDYA
- the absence of complete national data on the number of students with disability, their required levels of educational adjustment and the existing additional resources allocated for them
- the known high variability in the costs of providing educational adjustments for these students, which depend on their individual circumstances and conditions.

Consequently, the panel has included a loading for students with disability in the resource standard at Figure 50, but it is not possible to provide an indicative estimate of loadings at this time. Further work must be undertaken to set appropriate loadings after nationally consistent data on student numbers and adjustment levels becomes available. The work already underway through MCEECDYA should be completed urgently so that loadings can be set as soon as possible. Other aspects of the arrangements for funding students with disability are discussed in Section 4.3.2.

Structure of loadings

Recognising the additional costs of operating in remote and very remote areas, the panel concluded that there is a strong case for a range of loadings for all schools in these areas to reflect costs as well as school size. However, in metropolitan and provincial areas there is not the same case for a loading for size of school as this could encourage the establishment of unnecessarily small, uneconomic schools with limited capacity to offer an adequate educational experience to students. It could also encourage schools with multiple campuses to fragment.

However, it was recognised that the issue is not clear-cut as some provincial and metropolitan schools are necessarily very small because they have a specialist role, while some small provincial schools also face additional costs due to sparsity of population. Accordingly, the appropriateness of loadings in provincial and metropolitan areas for very small and small schools requires further work. This work should also examine differences between primary, secondary and combined schools and whether the MCEECDYA broad geographical classification is the most appropriate for this purpose.

In relation to Indigeneity and low socioeconomic background, the panel's analysis in Chapter 3.2 led it to conclude that loadings should be structured to reflect concentration of disadvantage so that higher loadings are provided where disadvantage is more concentrated.

However, there are important issues about the degree to which concentration should drive allocation of resources through loadings. As discussed in Chapter 1.2, the issues about underperformance in Australia are broader than low socioeconomic status and Indigenous students, with many underachieving students from middle and high socioeconomic backgrounds. Furthermore, many low socioeconomic status or Indigenous students perform well. One way to address this and direct resources to a broader range of schools would be to have a separate but lower loading for students in the second lowest socio-educational advantage quarter as well as those in the lowest quarter. The panel also considered whether a student being Indigenous or of low socioeconomic status alone warranted a loading regardless of student concentration, and concluded that this issue requires further analysis using student-level data to determine the extent of differentials between those students and others in schools where there is minimal concentration.

In relation to limited English language proficiency, the panel noted evidence as discussed in Chapter 3.2 showing that the effect on student performance of a LBOTE is complex. It is affected by the particular language background concerned and does not appear to be affected by concentration of LBOTE students, as is the case for low socioeconomic status and Indigenous students. For these reasons the panel considers that a loading is best structured around limited English language proficiency and that a per student loading would be most appropriate. With the development of better measures of English language proficiency, it would become possible to differentiate between students requiring more or less support.

Indicative ranges

As with the per student resource standard amounts, it is not possible to propose any firm estimates of the loadings at this stage until more detailed work has been undertaken in collaboration with the states and territories and the non-government sector. For the purposes of its modelling, the panel worked with a range of possible estimates and structures for loadings as indicated in Table 20. These can provide a starting point for this further work (see Appendix H).

Table 20: Schooling resource standard loadings – indicative ranges

	From (lower end of range)	to (upper end of range)
School size and location	10% <i>for medium-sized schools in remote locations</i>	100% <i>for very small schools in very remote locations</i>
Low socioeconomic status	10% <i>for each low SES student in schools with under 10% of students in the lowest SES quarter</i>	50% <i>for each low SES student in schools with more than 75% of students in the lowest SES quarter</i>
Indigeneity	40% <i>for each Indigenous student in schools with between 5% and 25% of students who are Indigenous</i>	100% <i>for each Indigenous student in schools with more than 75% of students who are Indigenous</i>
Limited English language proficiency	15% <i>for each student with limited English proficiency</i>	25% <i>for each student with limited English proficiency (for example, recently arrived refugees)</i>

Further work

As with the resource standard per student amounts, further work is required to develop firm estimates of the loadings and proposals for how they should be structured. In the short term, initial estimates will be required by mid-2012 to support negotiations over the implementation of the new funding arrangements. Work required in this period will include:

- the approach to loadings in provincial and metropolitan areas for very small and small schools and the applicability of the MCEECDYA broad geographical classification for the purpose of loadings related to location
- the extent to which and on what basis a low socioeconomic status weighting should be provided for the two lowest socioeconomic status quarters
- whether Indigenous and low socioeconomic status students in all schools should attract a loading set at a lower level of the range set out in Table 20, regardless of student concentration
- the possible interactions between remoteness, low socioeconomic status and Indigeneity, which would need to be taken into account in setting loadings
- an assessment of the additional resources that proposed loadings would deliver to selected types of schools with the most concentrated disadvantage and the educationally effective strategies these could support.

Actual loadings to apply from the beginning of 2014 will be required by early 2013 at the latest. Work to be undertaken by this point will depend on progress with the first stage of work. It will also need to connect to longer term tasks such as improving the accuracy and rigour of measures of low socioeconomic status and limited English language proficiency. Drawing on improved data and information on the evaluation of programs aimed at redressing disadvantage, consideration could also be given to assessing loadings based on how schools with various concentrations of disadvantage have improved outcomes towards national benchmarks over time. This would involve assessing changes in resource levels and outcomes from a broader range of schools with similar characteristics to those in the reference group. This will become possible once more years of consistent national financial data become available.

This work will need to be progressed as part of the periodic independent review of the resource standard amounts and loadings to ensure that loadings remain relevant and appropriate and contribute to improved outcomes over time. This would include reviewing the need for the structure and level of loadings for specific factors. If the panel's goal of equity was reached at some future point so that outcomes were less strongly associated with student background and characteristics, then the rationale for loadings would need to be carefully examined, taking into account the sustainability of improvements and the conditions for ongoing success.

This approach will require a much greater focus over time on improving data about resource allocation, educational outcomes and the evidence base for effective intervention, not only for students from disadvantaged backgrounds but more generally for low-achieving students. It would be important to avoid entrenching loadings as an entitlement. Otherwise, it is possible that the needs that loadings address—the challenge associated with students with certain characteristics meeting educational goals and targets—will never be successfully met.

Recommendation 14

The schooling resource standard should include loadings for:

- school size and location
- the proportion of students in a school who are Indigenous or from low socioeconomic backgrounds, with loadings to increase for schools where the concentration of such students is higher
- the proportion of students in a school with limited English language proficiency.

Loadings for students with disability should be added as soon as possible once work underway on student numbers and adjustment levels is completed. The Australian Government should work with the states and territories and the non-government sector to develop and check specific proposed loadings by mid-2012.

4.2.9 Indexation and review

It is important that there are both appropriate annual indexation arrangements for the resource standard per student amounts, and regular review and adjustment of those amounts, as well as the loadings. These functions should be performed by the National Schools Resourcing Body established for this purpose.

A key consideration in indexation is to ensure that the real value of the public contribution to the resourcing needs of systems and schools is maintained between these regular reviews as if the standard itself was recalculated each year based on the most recently available financial and other data. Embedded in both the concept and the derivation of the schooling resource standard per student amounts is a presumption that schools make efficient use of the resources available to them. This will be enhanced by increased accountability for outcomes. Further discounting the standard amounts in any way through partial rather than full indexation for changes in costs from year to year would undermine the long-term effectiveness of adopting an outcomes-based resource standard in addressing equity and performance. It would also compromise the integrity of the design of the standard which is derived from data for individual schools which are known to be educationally effective.

Accordingly, annual indexation of the amounts should be linked to changes in actual costs in reference schools, which could be established by surveying these schools each year to establish the increases in wage and non-wage costs experienced over the previous year. The changes derived from this could be applied to the schooling resource standard amounts assuming an appropriate ratio of wage to non-wage costs derived from the survey. Details of the costs for which data should be collected and how a survey might be conducted would need to be developed as part of implementation of the package. At present with AGSRC, there is likely to be a 12- to 15-month lag between the end of the calendar year for which the data is collected and when it is applied to the standard amounts.

Regular periodic review and evaluation of the effects of the resource standard will be critical to achieving its objectives. These should include consideration of possible improvements to the methodology for deriving the amounts and loadings along with explicit consideration of the extent to which the standard should reflect changes in both prices and quality of inputs, as well as the impact of the standard on available resources for similar schools in all sectors. It is also important that better data is collected and analysed over time to underpin the assessments of effectiveness and ongoing need for loadings. Therefore, areas for data improvement should be a specific focus of these periodic reviews, with the extensive work that may be required between reviews to be coordinated and driven by the National Schools Resourcing Body.

The functions described here should be overseen and undertaken at arm's length from government. Confidence in the resource standard needs to be established through processes that are open and transparent. This should involve representation from different schooling sectors and interests and be based on credible, expert advice. This requires an institutional and governance framework around the process for updating the resource standard that is rigorous and independent. This would be best achieved by an independent statutory body. This body would collect any necessary data, acquire appropriate expertise, develop suitable statistical methodologies and periodically recommend updated levels of the standard per student amounts and loadings to governments. These arrangements are dealt with more fully in Chapter 4.4.

Recommendation 15

Schooling resource standard per student amounts applying in 2014 should thereafter be indexed annually based on actual changes in the costs of schooling incurred by reference schools. Both the per student amounts and the loadings should be reviewed by the National Schools Resourcing Body before the commencement of each funding quadrennium. Indexation and review should occur within an institutional framework that ensures that the process is independent, transparent and rigorous.

4.3 A new funding framework

The schooling resource standard described in the previous chapter provides a starting point for a new framework for funding all Australian schools. As the schooling resource standard deals with the total level of resources required from public and private sources, it is necessary to now set out in this chapter the panel's conclusions about how the resource standard should be funded from public and private sources in different types of sectors and schools. As part of this, the panel's recommendations for funding for students with disability and for capital are also set out.

Explicit in the panel's recommendations is the principle that all Australian children and young people should have the opportunity to receive an internationally acceptable level of schooling, regardless of their background. Implicit in the panel's recommendations is that while sufficient resources should be available to fund an internationally acceptable level of education for all Australian children, these resources can be, and currently are, provided from public and private sources. The important issue from a national perspective is not who provides the resources for schooling for all Australian children, but that they are actually provided.

4.3.1 General recurrent funding

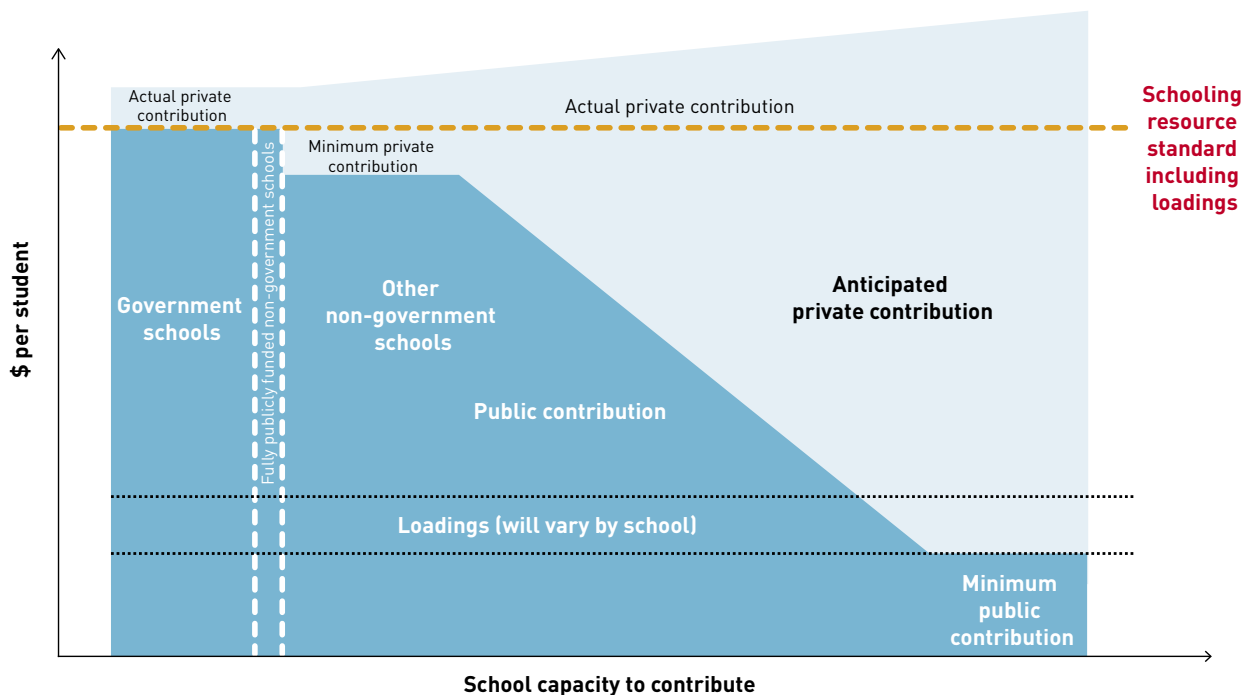
The schooling resource standard provides a starting point for a new coherent, national funding model which recognises that schools with similar student and other characteristics, regardless of sector, require the same total resources. The per student amounts plus loadings for each school would represent the estimated total public (Australian and state and territory governments) *and* private resources required for the school to provide its students with the opportunity to achieve high educational outcomes.

The panel's funding model is summarised in Figure 54. This shows that the schooling resource standard amounts and loadings would be fully publicly funded in government schools, as well as in certain non-government schools where a minimum private contribution from parents would not be anticipated. For most non-government schools the public contribution would be reduced as the capacity of the school and parents to contribute to the cost of schooling increases.

If the actual private contribution exceeded that which is anticipated in the funding formula, a non-government school would have total resources in excess of the resource standard. Non-government schools would not be required to raise private income or fees equivalent to the anticipated private contribution.

A minimum public contribution would apply to schools with the highest capacity to contribute. In this regard the panel noted the Australian Government's announcement that no school will lose a dollar per student as a result of this review and has framed its recommendations in ways which will allow that to be achieved.

Figure 54: Proposed model for funding the schooling resource standard



The schooling resource standard will provide a new level of coherence and a common structure for funding all Australian schools. However, arrangements for funding the resource standard through public and private contributions need to take into account some critical structural and historical differences between government and non-government schools. They also need to reflect some differences in their particular obligations and roles within the Australian schooling system, which have implications for funding.

Government schools

The government sector is required to provide access to a place for all young people whose parents wish them to attend a government school and has less scope to deny entry or exclude some students than non-government schools. It is important for the future of Australian schooling that the government sector continues to perform the role of a universal provider of high-quality education which is potentially open to all.

This has significant implications for funding and means that, in practice, funding for government schools from fees cannot be significant or compulsory. Education legislation in the states and territories indicates in various ways that government schooling is either free or that, where levies are charged, they cannot be compulsory and students cannot be denied access to an education program because the payment has not been made. Within these parameters, states and territories differ in the level of fees charged, the rate of collection and the degree to which they actively pursue payments from parents (Keating et al. 2011).

Consequently, government schools are almost entirely publicly funded, with private income representing only around 5 per cent on average of the total resources available to them. This reflects the requirement for government schools to be universally accessible to all students regardless of parental financial capacity to contribute towards the cost of schooling.

In contrast, non-government schools have greater autonomy over their enrolments, school organisation and ethos, and parental contributions through fees and other income in general play a much greater role in funding. Non-government schools value their distinctive ethos and roles, as well as their access to these non-government sources of funding. In choosing non-government schools, parents expect to make a direct financial contribution to the cost of schooling.

Consequently, most non-government schools report higher levels of private income. Many non-government systems and schools also offer concessional fees to parents with limited means or in temporary hardship. While there is great variability within the non-government sectors in the capacity of systems and schools to support themselves, overall private funding plays a much greater role in meeting the resource needs of these schools than it does in government schools.

In this context the panel believes that it is appropriate that in the government sector the fully loaded resource standard for each government system or school should be fully publicly funded, with any private contribution towards the school adding to its available resources. Accordingly in Figure 54, the private contribution in government schools is shown as being in addition to the schooling resource standard including loadings.

Recommendation 16

Australian governments should fully publicly fund the recurrent costs of schooling for government schools as measured by the resource standard per student amounts and loadings.

Non-government schools

In most non-government schools it is appropriate to anticipate that a minimum private contribution will be made towards the schooling resource standard. In general, parents choosing to enrol their children in a non-government school know that fees are expected and believe that this is a worthwhile investment for the benefits it provides their children.

Based on the existing level of public funding available to non-government schools, the panel believes that this anticipated private contribution should be set at a minimum of 10 per cent of the per student resource standard amounts for a school. This anticipated minimum contribution should apply to the per student resource standard amounts only and not to any applicable loadings, as these loadings are more likely to be significant for schools with the least capacity to contribute and the loadings would then be fully publicly funded for these schools.

Recommendation 17

Australian governments should base public funding for most non-government schools on the anticipation that the private contribution will be at least 10 per cent of the schooling resource standard per student amounts.

In addition, the panel considers that there are some circumstances where it is appropriate that the schooling resource standard and loadings should be fully publicly funded for some non-government schools as they serve students and communities with very high levels of need. A minimum private contribution would not be anticipated for these schools. The arrangements for these schools would relate solely to funding and would not affect their ownership, governance or operation.

The panel's suggested criteria for deciding whether a non-government school should be funded on this basis would be that the school:

- does not charge compulsory fees and has no real capacity to do so, and as a result has very limited, if any, private income
- provides education to students with very high needs, such that without full public funding of the school's resource standard those needs would not be met.

As with government schools, any actual private contribution towards these schools would be in addition to the schooling resource standard.

The panel has identified four types of non-government schools which it believes meet these criteria in the first instance. These are:

- special schools serving children with disability
- special assistance schools catering for students with social, emotional or behavioural difficulties
- majority Indigenous student schools comprised of those with 80 per cent or more Indigenous enrolments, or a very remote school with 50 per cent or more Indigenous enrolments
- sole provider schools in remote locations that are effectively offering a universally accessible service equivalent to a government school.

Around 5 per cent of all non-government schools are estimated to fall into one of these four categories, which are not mutually exclusive. Detailed criteria for identifying these schools would need to be developed and agreed by governments as part of implementing the panel's recommendations. Eligibility of schools to be funded in this way should be determined against these criteria by the proposed National Schools Resourcing Body.

Recommendation 18

Australian governments should fully publicly fund the recurrent costs of schooling for non-government schools as measured by the resource standard per student amounts and loadings where the school:

- does not charge compulsory fees and has no real capacity to do so, or
- provides education to students with very high needs, such that without full public funding of the school's resource standard those needs would not be met.

The eligibility of particular non-government schools for full public funding should be determined by the National Schools Resourcing Body.

An implication of the Australian Government's announcement that no school will lose a dollar per student as a result of this review is that there should be a minimum level of public funding for schools regardless of the capacity of the school to contribute or of its actual contribution to the funding for the schooling of its students. This minimum public contribution would apply to a very small number of high-fee-paying schools, as is the case now under the SES funding model.

The panel considers that a level between 20 to 25 per cent of the schooling resource standard per student amounts without loadings would be appropriate. This is approximately equivalent to the current minimum level of combined Australian Government and state and territory funding received by those non-government schools which are funded under the SES model and which have an SES score of 130 or above. Together with transition arrangements discussed later in this chapter, this would meet the government's expressed policy intent and could be administered efficiently.

Recommendation 19

To meet the Australian Government's announcement that no school will lose a dollar per student as a result of this review, a minimum public contribution towards the cost of schooling should apply to non-government schools at a level between 20 to 25 per cent of the resource standard per student amounts without loadings.

Measure of need for public funding

An appropriate measure of a non-government school's ability to self-fund all or part of its schooling resource standard is a critical part of the design of any new funding model. For this purpose, a good measure of need should be able to accurately and reliably differentiate between systems and schools in a variety of circumstances. In addition, a measure of need should preserve incentives for parents to invest in the education of their children where they choose to and are able to do so.

The panel considers that basing public funding on the level of private resources a school is likely to be capable of raising for itself is preferable to relying on the private income that it actually receives. As argued in Chapter 2.3, linking public funding directly to a non-government school's private income, expenditure or assets would be inherently complex and difficult to implement equitably given that different schools finance their recurrent and capital needs in very different ways. It would also accentuate disincentives for parents to invest in their children's education.

The panel's preferred approach is that some measure of a school's capacity to contribute private funds to a schooling resource standard should be used, such as the SES of the school and its students. The current SES measure is derived from the characteristics of the census Collection Districts in which a school's students live. However, this is subject to a potentially large degree of inaccuracy as the students attending a particular school are not necessarily representative of the socioeconomic averages of the areas in which they live.

A more precise measure of the SES of a school would be more accurate and credible. This could take the form of a measure based on smaller areas, such as the mesh blocks which represent the smallest unit of the 2011 census, or alternatively, a direct measure of parental SES. The latter would need to be developed and tested on a school-by-school basis.

The panel considers that work should commence as a priority to develop a more precise measure of capacity to contribute to replace the existing SES measure. In the meantime, the existing SES measure has been used by the panel as the basis for estimating the quantum of the private contribution that should count towards meeting the resource standard in non-government systems and schools. In the case of a non-government system this would be the enrolment weighted average SES score of all the schools in the system.

Recommendation 20

For the purposes of allocating public funding for non-government systems and schools, all Australian governments should:

- adopt a common concept of need for public funding based on the capacity of the school or system to contribute towards its total resource requirements
- commence work as a priority to develop, trial and implement a better measure of the capacity of parents to contribute in consultation with the non-government sectors.

The Australian Government should continue using the existing area-based SES measure until this better measure is developed.

Anticipated private contribution

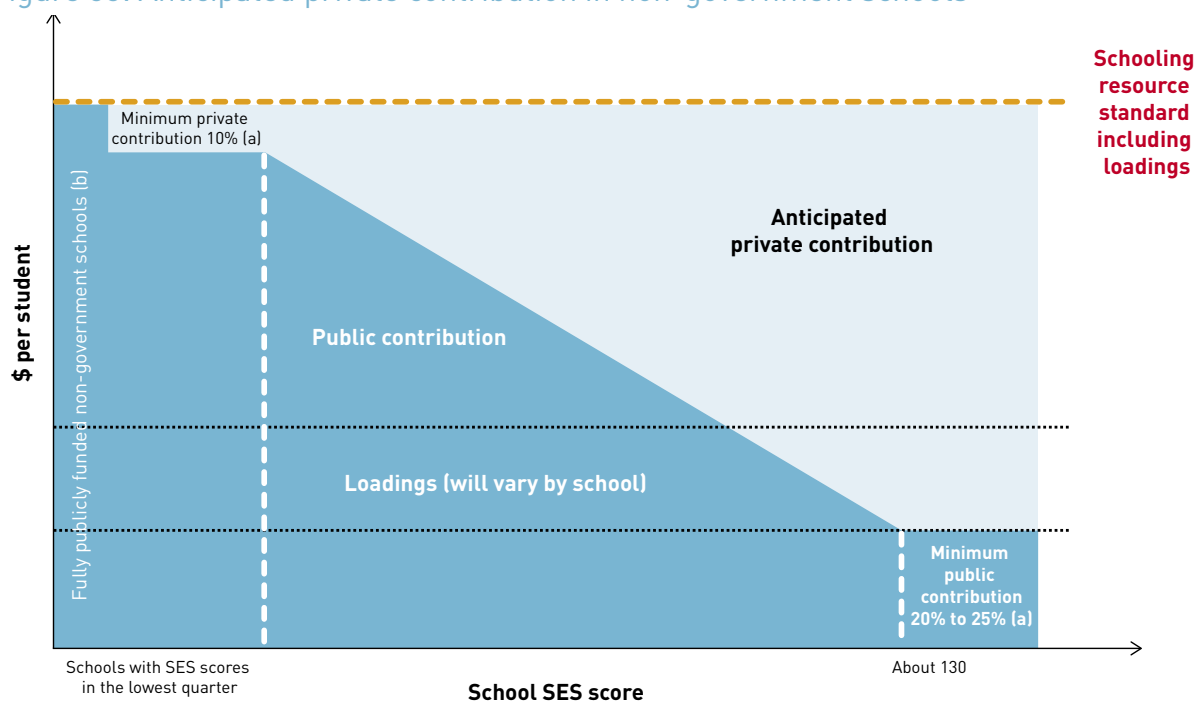
The panel's proposed funding model for non-government schools is summarised in Figure 55. There are three parameters of this model that require further discussion:

- the school SES point up to which only the minimum private contribution is anticipated
- the school SES point beyond which only the minimum public contribution is payable
- the shape of the anticipated private contribution between these two points.

In considering these issues, the panel was conscious of both the simplicity of continuing some parallels with the existing SES funding model and the need to ensure that new funding arrangements for non-government schools reflect the range of private contributions across the sector.

As discussed in Chapter 2.3, there is long-established diversity in levels of parental contributions within the non-government sector. In particular, there are a large number of Catholic systemic schools and independent schools at different school SES levels which aim to offer relatively low-fee education. The panel also noted that, if governments fully funded the difference between the schooling resource standard and what parents and others actually contribute to schools, incentives for private contribution would be weakened. It would also lead to different levels of public funding for non-government schools with similar capacity to contribute from private sources.

Figure 55: Anticipated private contribution in non-government schools



(a) As a percentage of the resource standard for the system or school without loadings.

(b) Where schools serve students and communities with very high levels of need.

The panel concluded that, in order to balance these considerations, the minimum anticipated private contribution should apply to the lowest quarter of schools by their SES scores. That is, non-government schools with SES scores up to a point to be determined between 90 and 95 would be anticipated to make the minimum private contribution. The minimum public contribution would apply to schools with an SES score above around 130.

The panel also concluded that it would be premature to finalise these three parameters of the new funding model before updated estimates of the schooling resource standard per student amounts and

loadings are developed as described in the previous chapter. Once this work has been done, and it is possible to assess in detail the impact of the proposed resource standard and funding model on non-government systems and schools, the parameters should be determined in a way that balances the desirability of:

- minimising the extent and incidence of any differences between the schooling resource standard required by each non-government system and school and the resources available to it from all sources
- preserving reasonable incentives for an adequate private contribution towards the schooling resource standard across non-government schools with various capacities to contribute.

This should also occur in the context of the panel's overall recommendations on funding, including that significant additional funding is required overall to address the imperatives of improving both Australia's overall performance in schooling outcomes as well as achieving greater equity. It should also reflect the panel's approach that, from a national perspective, the overriding issue is that schooling is adequately funded, not who provides those resources.

Recommendation 21

For the purposes of allocating public funding for non-government schools, the minimum private contribution should be anticipated for schools with SES scores in the lowest quarter of scores. The minimum public contribution should apply to schools with SES scores above around 130. The precise school SES scores and the shape of the anticipated private contribution between these two points should be set in a way that balances:

- minimising the extent and incidence of any differences between the schooling resource standard required by each non-government system and school and the resources currently available to it from all sources
- preserving reasonable incentives for an adequate private contribution towards the schooling resource standard across non-government schools with various capacities to contribute.

Australian Government and state and territory roles in public funding

So far the panel's proposed funding model has been couched in terms of the private and the public contribution towards the standard per student amounts and loadings. A key issue is the relative responsibilities of the Australian Government and the states and territories for public funding of schools. In Australia, the funding of schooling is shared between the Australian and state and territory governments. As noted in Chapter 2.1, at present and for historical reasons the states and territories bear by far the largest share of funding for government schools, while the Australian Government is the primary public funder of non-government schools. As argued there, the panel considers that this arrangement is out of date, confusing, misleading, unbalanced and undesirable.

In principle, there is an argument for all levels of government making a more balanced contribution towards the public funding of the resource requirements of schools in both the government and non-government sectors. In particular, a more balanced alignment of funding responsibilities would better reflect:

- the aspiration for a funding system that is less marked by strong sectoral divides between government and non-government schools
- the Australian Government's access to faster growing revenue sources compared to the constrained revenue-raising capacity of most states and territories

- the slower productivity growth achievable in delivery of education, health and other human services, which are the primary expenditure responsibilities of the states and territories
- the increasing complexity of the Australian economy where from time to time the states and territories find themselves with growing or declining economic growth because of the dynamic nature of the world economy and its direct effect on their revenue-raising capabilities
- the magnitude of the investment required to improve Australia's schooling performance and make substantial progress in reducing inequity of educational outcomes.

In practice, the panel recognises that the existing imbalances have come about over many years and that the extent of the disparities in contributions across sectors and states and territories is of a magnitude that cannot be changed quickly. Consequently, changes to these funding roles would need to be implemented incrementally and within a governance framework which gives certainty and stability around expected future funding levels for schools in all sectors from all government sources. Moreover, there are significant existing differences between the states and territories in the level of expenditure on both government and non-government schooling, as well as in the capacity of different jurisdictions to fund growth.

Nevertheless, the panel believes that the Australian Government and the states and territories need to negotiate more balanced funding roles as part of the transition to a new funding model for all schools that will enable Australia to maintain and extend its educational aspirations. In the government sector, aggregate funding shares should be rebalanced gradually by the Australian Government bearing some part of the cost of bringing current expenditures in the government sector up to that indicated as required by the resource standard. This would need to be phased in over time and vary across the states and territories, at least initially, to reflect differences in current resourcing levels and costs.

In return for this, the states and territories could take a larger role in contributing to non-government schools by agreeing to move towards sharing some greater part of the cost of public funding on a more balanced basis with the Australian Government. The net effect, it is suggested, would be additional funding for the states and territories, with their increased funding for non-government schools more than outweighed by additional Australian Government funding for government schools.

The panel believes that a number of key principles should guide any renegotiation of funding roles:

- the states and territories should continue to operate their systems of government schools
- the states and territories should have an incentive to take part in new funding arrangements
- non-government schools should be assured that relevant states and territories will meet any funding commitments to them
- no state or territory should be disadvantaged in relation to Commonwealth Grants Commission or GST allocations as a result of their participation in new funding arrangements.

Recommendation 22

The Australian Government and the states and territories, in consultation with the non-government sector, should negotiate more balanced funding roles as part of the transition to a new funding model for all schools, with the Australian Government assuming a greater role in the funding of government schools and the states in relation to non-government schools. This should occur within a governance framework that gives certainty and stability around expected future funding levels for schools from all government sources and operational independence for non-government schools.

Funding for systems

The Australian Government is both a funder of government and non-government systems, as well as a provider of funds directly to individual schools. System authorities have the direct responsibility for operating and allocating funding to their member schools and are better placed than the Australian Government to determine the most effective allocation of available resources in their particular circumstances. This is an aspect of the principle of subsidiarity.

Subsidiarity has become an important guiding principle for governments when considering the appropriate roles of various levels of governments in federations like Australia. In general, the principle of subsidiarity suggests that the level of government closest to the communities receiving those services should provide those services and, if possible, fund and regulate them. Based on the principle of subsidiarity, it is appropriate that the actual provision of schooling should be organised at the local level. However, it would not be possible to fully fund schooling adequately without substantial Australian Government involvement.

For this reason, in the government sector, the Australian Government has not sought to allocate its recurrent funding down to school level and also because this would be a purely notional step given that state and territory government funding has been the larger contribution. Likewise in non-government systems, any individual school-based calculation of funding is purely notional since system authorities generally reallocate block funding they receive from the Australian Government or the states and territories in accordance with their own locally adapted and needs-based funding formulas. The latter typically take into account system-wide policies, individual school needs and available private resources.

Given the primary responsibility of government and non-government system authorities for the funding and operation of their schools, Australian Government funding for all systems should be assessed and calculated at the system rather than the school level. While the resource standard needs to be calculated at school level, the results of this would be aggregated to system level in order to calculate Australian Government funding. The panel believes that this is a more realistic basis on which to fund systems than to notionally calculate funding for individual schools within them.

Nevertheless, block funding of systems does raise issues about the transparency of funding allocation by systems and their accountability for the allocation and use of all of their resources. Assessment and payment of funding to systems on a consistent basis should be accompanied by a responsibility and obligation on them to disclose the basis on which public and private funding is allocated to individual member schools. In particular, there should be an obligation on systems to report publicly when the allocation of total resources to schools deviates significantly from the principles in the schooling resource standard. In addition, the actual Australian Government and state and territory funding allocated to individual schools should continue to be collected and reported on the *My School* website.

Recommendation 23

Given the primary responsibility of government and non-government system authorities for the funding and operation of their schools, public funding for systems should be assessed and calculated at the system level provided that systems:

- are transparent about the basis on which they allocate any public and private funding to member schools and the purpose for which it is spent
- report publicly when the allocation of total resources to schools deviates significantly from the principles in the schooling resource standard
- continue to report income and expenditure from each source for individual member schools on the *My School* website.

Targeted funding programs

The schooling resource standard represents a new approach to funding schooling and the costs of redressing educational disadvantage. This will require a much greater focus over time on improving data about resource allocation, educational outcomes and the evidence base for effective intervention.

This would replace the approach, which the Australian Government has taken since the 1970s, of seeking to influence the direction of schooling or the achievement of particular outcomes through additional program funds for specific activities or groups of students. In the government sector, targeted programs were subsumed within the National Schools SPP from 2009, but have continued in the non-government sector. Since then the National Partnerships have involved a more substantial and strategically directed investment in improving schooling outcomes across sectors, especially for students achieving poorer outcomes or from disadvantaged backgrounds. However, they are still a type of targeted funding that seeks to direct inputs to particular goals.

The panel believes these types of specific purpose funding are incompatible with the new funding model framed by the schooling resource standard and should be phased out, with the funds planned to be allocated through them rolled into the base of funding available for the new model. This would also simplify and streamline existing Australian Government funding for schools. Moreover, the architecture of the schooling resource standard and associated funding arrangements is such that the outcomes sought by the standard can be amended by the inclusion of additional specific outcomes, which would then increase future funding requirements.

The Australian Government could continue to have a role in funding specific programs or activities where these do not direct funding to the school level (for example, funding cross-sectoral national initiatives, improved accountability and research) or provide funds for activities not within the scope of the resource standard (for example, capital). There may also be a need from time to time for initiatives to address non-ongoing, temporary priorities outside the four-yearly periodic review of the schooling resource standard, but these should be subsumed within the structure of the standard and its loadings if there is a case for making them permanent.

Recommendation 24

In establishing a baseline level of existing funding for the schooling resource standard and loadings, the Australian Government should roll in, to the maximum possible extent, all general recurrent funding for schools and targeted funding programs for non-government schools and National Partnerships, subject to appropriate transitional arrangements.

Transitional arrangements

This review was commissioned to make recommendations on the future funding arrangements for schooling in Australia for 2014 onwards. The new model for general recurrent funding of systems and schools set out in this report will, when fully implemented, involve extensive change for all sectors, schools, system authorities and governments. These changes will have significant budgetary costs for governments in some cases and will also have implications for legislation and intergovernmental agreements. The changes also have the potential to impact on the way systems and individual schools are funded.

Results of aggregate financial modelling of the panel's recommendations are presented in Chapter 4.6. As noted earlier in this report, further work is required to update indicative estimates of the schooling resource standard per student amounts and loadings and to finalise some key parameters for the funding of non-government schools and systems. Given this, it is not yet possible to explore detailed

impacts on jurisdictions, systems or schools. Subsequent work will be required in this respect, including to model any transitional arrangements in detail.

Nonetheless, it is clear to the panel that a well-thought-out transition extending some years beyond 2014 will be necessary to accommodate the magnitude of change involved in moving to this new model. For this purpose, transitional arrangements should be developed that:

- provide certainty to systems and schools about funding during the implementation period, consistent with the Australian Government's announced commitments
- recognise the need for extensive negotiation involving all governments and non-government school authorities along with associated changes to agreements and legislation
- acknowledge the fiscal pressures on governments while moving to reap the benefits of a more outcomes-driven approach to funding as quickly as possible.

A more detailed assessment of transitional issues should be prepared once the schooling resource standard estimates and key funding parameters are known.

Recommendation 25

In order to successfully implement the funding reforms in this report, the Australian Government should, in collaboration with state and territory governments and in consultation with the non-government sector, develop transitional arrangements that:

- provide certainty to systems and schools about funding during the implementation period, consistent with the Australian Government's announced commitments
- recognise the need for extensive negotiation involving all governments and non-government school authorities along with associated changes to agreements and legislation
- acknowledge the fiscal pressures on governments while moving to reap the benefits of a more outcomes-driven approach to funding as quickly as possible.

4.3.2 Students with disability

As discussed in Chapter 4.2, it is not possible at this time to estimate the loadings required in the schooling resource standard for the additional costs of students with disability. Further work to allow this to happen must be undertaken urgently so that loadings can be set as soon as possible. One aspect of this further work is to ensure that the loadings reflect the variety of levels and costs of additional support required by students with disability. The panel considers that it would be most appropriate to fully publicly fund loadings for students with disability as an entitlement.

Students with disability entitlement

There are a number of significant data and definitional issues that hamper the development and rapid implementation of this funding stream for students with disability and which must be addressed urgently before new arrangements can be finalised. The panel is of the view that the recently developed and trialled model for collecting nationally consistent data about school students with disability, and the level of educational adjustment required by them, provides a good basis to inform the development of funding arrangements for students with disability. The panel also recognises that immediate collaborative action between the Australian Government and state and territory governments will be essential to make progress in this area.

In October 2011, MCEECDYA agreed that further work is required on the model before it can be endorsed for national implementation. However, for the model to be used to inform the development of funding arrangements for students with disability from 2014, it is critical that the Australian Government and state and territory governments work towards the full implementation of nationally consistent data from January 2013.

Recommendation 26

The Australian Government and state and territory governments, in consultation with the non-government sector, should, as a matter of priority, progress work on collecting nationally consistent data on students with disability and the level of educational adjustments provided to them to enable national data to be collected and reported from January 2013.

Under the panel's proposed funding arrangements, all schools with students with disability would be allocated the applicable schooling resource standard per student primary or secondary amount, derived from public and private sources according to the arrangements set out in Chapter 4.2. The school would also attract any other applicable loadings, for example, due to location or other educational disadvantage. For some students with disability, this recurrent funding alone may be sufficient to make the necessary educational adjustments to participate in schooling on the same basis as other students.

However, for students with moderate to high support needs, additional funding is needed to make the adjustments for them to participate effectively in schooling. The calculation of the amounts of this additional funding should be based on the cost of making reasonable educational adjustments to participate in schooling on an equal basis as other students and should be included as a loading in the schooling resource standard.

It is expected that the forthcoming National Disability Insurance Scheme may cover the costs of certain goods and services used in supporting students with a severe or profound disability, if these are also required for everyday living. Such goods and services may include personal care and therapy services, and the costs of equipment such as wheelchairs.

When implemented nationally, the model for collecting nationally consistent data on students with disability will provide information on the level of reasonable educational adjustments that are being made for students with a diagnosed or validated disability. The proposed National Schools Resourcing Body could then undertake work, in consultation with the Australian Government, state and territory governments and the non-government sector, to establish an initial funding range based on the average cost of making each level of adjustment. Costs that are associated with therapy and other support services for students with disability should be the responsibility of portfolios outside education, and should not be funded from the students with disability loading.

The panel considers that where this additional loading is required, it should be provided to any school in the form of a disability entitlement based on the number of children attending the school requiring the different levels of assistance. Unlike the schooling resource standard per student amounts and other loadings, the students with disability loading should be fully publicly funded as an entitlement, irrespective of the type of school the student attends or its school SES. This will support an inclusive approach to schooling for students with disability, and address the needs of students regardless of the sector in which their school is located. Providing the same publicly funded entitlement to a student for a certain level of educational adjustment regardless of the school they attend will mean that all schools are able to meet their legislative obligations in providing access and adequate education to students with disability.

It will be critical that the Australian Government and state and territory governments work together to determine how the cost of the students with disability entitlement may be shared by governments.

The students with disability entitlement should be paid to schools in the same way as the rest of their funding, according to whether a school is funded directly or through system authorities. This would allow the relevant school authority to make decisions around the resourcing of individual schools, based on the local needs and considerations, and subject to appropriate transparency in their allocation processes.

It will be important that the National Schools Resourcing Body monitor and refine the loadings under the students with disability entitlement over time, as the national data on the number of students with disability and their levels of educational adjustments matures.

Recommendation 27

The National Schools Resourcing Body should work with the Australian Government and state and territory governments in consultation with the non-government sector to develop an initial range for a student with disability entitlement. The entitlement should be:

- provided in addition to the per student resource standard amounts
- set according to the level of reasonable educational adjustment required to allow the student to participate in schooling on the same basis as students without disability
- fully publicly funded and applied equally to students in all schooling sectors.

Special schools for students with disability

The proposed funding arrangements involve students with disability in special schools funded in a consistent way to students with disability in mainstream schools. These students will attract a per student amount, plus any applicable loadings and, in addition, their loading under the students with disability entitlement. However, as discussed in Section 4.3.1, in recognition of the high resourcing demands that are experienced by all special schools, non-government special schools should receive a loaded per student amount that is fully publicly funded, as would occur in government special schools.

In recognition of the limited knowledge of the resourcing practices and needs of government and non-government special schools catering for students with disability, the panel recommends that the National Schools Resourcing Body undertake work to determine the resourcing needs of these schools, including their educational and other support costs, and any impact the National Disability Insurance Scheme may have on school resourcing.

Recommendation 28

The National Schools Resourcing Body should undertake work to determine the resourcing needs of government and non-government special schools catering for students with disability.

4.3.3 Capital and infrastructure

As capital and infrastructure costs (other than maintenance and minor works) will not be funded through the recurrent schooling resource standard, the panel sees a need for ongoing Australian Government capital funding for both the government and non-government sectors.

In the panel's view it is appropriate that government and non-government system authorities and individual schools continue to take responsibility for managing their infrastructure. However, a major component of the panel's recommendations is that there is a need for greater transparency about, and accountability for, the condition of school infrastructure in Australia.

The panel's proposed arrangements would establish two separate streams of Australian Government funding to support capital investment. One stream of funding would be to support new schools and school expansions, and the other would be to support investment in infrastructure in existing schools. Key features of the panel's proposed arrangements for capital and infrastructure are outlined in Box 13.

The purpose of an Australian Government capital funding stream for new schools would be to encourage cross-sectoral planning and efficiency in education provision, and to assist with the costs of establishing or expanding schools. It will also enable the balanced development of new schools in new suburbs and towns, and facilitate coordinated and efficient planning and support the appropriate expansion of existing schools.

The purpose of an Australian Government capital funding stream for existing schools would be to encourage improved accountability and higher standards for school infrastructure and will provide essential funding. Elements of the non-government sector already rely heavily on Australian Government funding, and it is clear the government sector needs additional support.

The panel expects that the cost of maintenance of existing school infrastructure would continue to be met through recurrent funding as is currently the case.

Recommendation 29

Funding for capital purposes should be available to both government and non-government systems and schools outside of the framework of a recurrent schooling resource standard.

Box 13: Capital and infrastructure funding – summary of panel proposals

- Establish School Planning Authorities in each state and territory to manage planning and development of new schools and major expansions of existing schools.
- The Australian Government to establish a School Growth Fund to support the establishment of new schools and expansions of existing schools. The fund would be managed by School Planning Authorities. These funds would be made available for both government and non-government schools.
- The Australian Government to establish a School Infrastructure Development Grants program to provide funding for capital projects in existing schools. These funds would be made available for both government and non-government schools.
- Strengthened accountability and improved transparency arrangements.
- Appropriate indexation of the School Growth Fund and the School Infrastructure Development Grants.

Establishment of School Planning Authorities

Based on the evidence presented to it, the panel considers that school planning is an area that requires significant reform, particularly in establishing new schools and the development and provision of schooling in growth corridors. In order to improve school planning, the panel proposes

that a School Planning Authority be established in each state and territory. These authorities will play a significant role in promoting comprehensive and coordinated planning for schooling.

Membership of all schooling sectors on each authority would promote meaningful cross-sector collaboration and planning, and will foster informed community discussion on the roles and relationships of all schools within a community. The core functions of the authority in each state or territory would be as follows:

- School Planning Authorities will be required to manage the proposed new School Growth Fund.
- All proposals for new schools, school closures, and major expansions of school enrolments would be discussed by School Planning Authorities.
- School Planning Authorities will be responsible for the approval of funding for projects under the School Growth Fund. These decisions should be binding and only projects approved by authorities would be eligible for funding.
- School Planning Authorities will be required to publish their decisions.
- School Planning Authorities will assist with sourcing and developing state-level information about education provision and demographic patterns to assist all sectors with planning.

To simplify administrative arrangements, School Planning Authorities would not have a role in managing or acquitting funds. Once proposals have been approved, funds would flow from the Australian Government to the relevant state government education authority or Block Grant Authority. State and territory education authorities and Block Grant Authorities would be responsible for ongoing project management and reporting to the Australian Government through DEEWR.

New schools – the School Growth Fund

The Australian Government should establish a School Growth Fund (the fund) to support the establishment of new schools and school expansions. The fund and associated governance arrangements would have two key objectives:

- ensure cross-sector collaboration and planning occurs and results in education provision that is efficient and meets the needs of communities
- provide financial support where education providers are struggling to meet enrolment demand.

The panel considers that the total funding pool should be notionally allocated to each state and territory authority and each Block Grant Authority based on projected enrolments, with an adjustment for the proportion of projected enrolments in regional or remote areas. It is important that this funding stream be geared towards addressing future need, rather than simply focused on existing enrolment share.

It is the panel's position that access to the fund in each state and territory should be dependent on the establishment and operation of the proposed School Planning Authorities which would be solely responsible for approving the allocation of funding to support a project. The panel acknowledges that schools could be established without approval of a School Planning Authority. While they would not be eligible for funding under the School Growth Fund, they could still attract recurrent funding if they meet the relevant state or territory criteria.

In considering proposals for funding from the School Growth Fund, School Planning Authorities would be required to consider:

- obligations for universal provision of education
- evidence to demonstrate that a new school or major school expansion is required

- whether the new or expanding school would undermine the capacity of neighbouring schools to deliver high-quality education, including due recognition of the need to offer choice of schooling
- evidence of community preferences in relation to the type of school that should be established or expanded
- the financial contribution from the relevant sector, and demonstrate that the proposed facility will be appropriately resourced and maintained into the future.

Recommendation 30

School Planning Authorities with government and non-government sector representation should be established within each jurisdiction and work to develop a coordinated approach to planning for new schools and school growth.

The Australian Government should establish a School Growth Fund for new schools and major school expansions, with the School Planning Authorities solely responsible for the approval of funding to projects.

Existing schools – School Infrastructure Development Grants

The Australian Government should establish a School Infrastructure Development Grants program to address the capital needs of all existing schools. The program and associated governance arrangements would have the following key objectives:

- improve the standard of school infrastructure over time, particularly in more needy schools
- address educational need by targeting funding to where it will have the most educational value
- improve national understanding of school infrastructure
- support education authorities to invest efficiently and effectively in school infrastructure.

It is the panel's view that the funding amount currently provided to non-government schools under the Capital Grants Program is appropriate and should be retained. Over and above this, the panel considers that the Australian Government should provide an additional amount of funding for government schools at a level equivalent to that provided to the non-government sector, adjusted to account for the larger enrolment share in the government sector. The provision of funding from the Australian Government should be conditional on maintenance of at least existing levels of state and territory government capital expenditure.

Program funding would support projects that are cost-effective, target educational need, have educational value and are innovative. It would also foster cross-sectoral collaboration and community involvement and support.

The relevant bodies in the government and non-government sectors would have sole responsibility for approving and managing individual projects. The non-government sector has established Block Grant Authorities to undertake this role. Consideration should be given by state and territory education authorities as to the most appropriate and effective means to manage this funding, including the possibility of establishing their own Block Grant Authorities.

Recommendation 31

Australian Government investment in non-government school infrastructure should be maintained and continue to be provided in partnership with relevant Block Grant Authorities.

The Australian Government should provide an additional amount of funding to support major works and infrastructure in existing government schools in each state and territory.

Existing schools – maintenance and minor works

The panel believes that systems (including governments) and schools should continue to meet the cost of maintaining existing school infrastructure through their recurrent funding and therefore maintenance and minor works should be included in the calculation of the schooling resource standard.

As discussed in Chapter 2.4, improvements should be made in how maintenance is defined to provide clarity for systems and schools over the expectations of governments and the community in relation to the quality and standard of school infrastructure. A clear definition of maintenance will also inform decisions on whether the expenditure is to maintain or extend the existing stock of capital within the school. The panel considers that the development of a national definition of maintenance should be the responsibility of the National Schools Resourcing Body.

Recommendation 32

The National Schools Resourcing Body should develop a national definition of the maintenance and minor works responsibilities of schools and education authorities required to be addressed from recurrent funds. This definition should be considered and agreed by the Australian and state and territory governments as a basis for capital and recurrent funding arrangements.

Strengthened accountability

Improving accountability is a crucial step towards improving the quality of school infrastructure. It will provide students, teachers, parents, communities, governments and education authorities with a better understanding of infrastructure standards within a school and how it compares to other schools. It will mean that school communities will be able to participate in a more informed way in discussions about capital funding needs and priorities.

Improved accountability will also provide governments and education authorities with an objective way of prioritising projects and expenditure on school infrastructure. Over time, nationally comparable information will be developed on the cost and quality of school infrastructure which can be used to better target funding, and to understand the educational value of investing in school infrastructure.

There are a range of measures the panel regard as essential in improving accountability and data in relation to school infrastructure. These are:

- The National Schools Resourcing Body will work with the states and territories and the non-government sector to develop definitions of adequacy and quality in relation to school infrastructure for both the government and non-government sectors.
- Government education authorities and the relevant bodies in the non-government sector will be responsible for assessing and monitoring the condition of their schools against these standards, and maintaining school and sector master plans.

- Over time, government and non-government sectors would be required to publish information about the condition of individual schools, and decisions about infrastructure and major works expenditure.
- The proposed School Planning Authorities will be accountable for decisions about new schools and school expansions.
- The National Schools Resourcing Body will investigate the feasibility of a national capital resource standard, and other cost benchmarking options, to assist with future monitoring and design of capital expenditure programs.

Recommendation 33

The Australian and state and territory governments should, in consultation with the non-government sector, strengthen public accountability for the public funding of school capital projects.

Indexation arrangements

In the Capital Grants Program, supplementation for capital expenditure is calculated annually by applying movements for the previous calendar year in the Producer Price Index – Non-Residential Building Construction, a fixed-weight index produced by the ABS (ABS 2011b). The index covers non-residential new construction using a component cost method, as close as possible to market prices, that reflects labour, material and plant input costs, and subcontractors' margins. The supplementation figure measures the movement between successive years, calculated with a 12-month lag (DEEWR 2011a).

In submissions to the review, some parts of the non-government sector argued that a range of factors amount to what is effectively an overall decline in the value of the Capital Grants Program. These factors include increasing regulatory requirements and more complex application arrangements, including things that apply disproportionately between sectors. These factors are not reflected in the Producer Price Index – Non-Residential Building Construction. Several submissions called for a more appropriate indexation mechanism that is inclusive of the total costs of school redevelopment and establishment. However, other elements of the non-government sector supported the current indexation arrangements for capital funding.

The panel considers there is not a strong case to change the indexation of capital programs, and supports the ongoing use of the Producer Price Index – Non-Residential Building Construction.

Recommendation 34

School Infrastructure Development Grants and the School Growth Fund should be supplemented annually in line with movements in the Producer Price Index – Non-Residential Building Construction.

4.4 Governance and regulation

The schooling resource standard and the panel's framework for funding require a more sophisticated approach to the governance and regulation of Australia's schooling system. In particular, the effectiveness of the arrangements rests on confidence in the independence and transparency of the process for setting the schooling resource standard. The extent to which all sectors and levels of government collaborate productively is also critical.

This chapter sets out the panel's recommendations on the governance structures and regulation measures necessary to support the schooling resource standard and funding framework. Central to this would be the establishment of a National Schools Resourcing Body, which would have oversight of the development, ongoing maintenance and periodic review of the schooling resource standard, along with a pivotal role in driving continuous improvement within the schooling sector. This chapter also outlines proposed roles and responsibilities of funding partners within the funding framework, as well as measures for improved public accountability and transparency of both funding and educational outcomes.

4.4.1 National Schools Resourcing Body

Effective governance is essential to the development and ongoing viability of the schooling resource standard. In developing the proposed funding framework, the panel considered a range of different governance options, and concluded that the most effective means to support the framework is to establish an independent expert body. The panel regards the independence of the body as essential to ensuring objectivity in its advice to governments.

The panel proposes that the National Schools Resourcing Body should form the core governance necessary to ensure that funding for schooling is provided in a way that maximises its educational impact. In order to achieve this, the body would have a broad range of interrelated responsibilities that would deliver a significant shift in how schools are funded. A summary of the proposed responsibilities is outlined in Box 14.

The National Schools Resourcing Body will be responsible for the ongoing development and maintenance of the schooling resource standard and loadings. In addition to the recalculation of the schooling resource standard and loadings every four years, it will be required to undertake data collection, research and analysis that will further current thinking on how to measure effectiveness in schooling. This will necessitate significant improvements in the collection of nationally comparable data, particularly in relation to the performance of students from disadvantaged backgrounds. The panel considers that ongoing research and continuous data improvement will ensure that the funding framework continues to be developed and enhanced through solid evidence and intellectual rigour.

The National Schools Resourcing Body should be independent of governments. This would ensure that the work it undertakes and the advice it provides is impartial and does not favour one school sector over another.

However, the panel regards it as essential that governments have final approval of all matters with budgetary implications. The National Schools Resourcing Body should not make determinations about the level of the resource standard per student amounts or loadings, but rather provide recommendations based on the latest evidence and data to Education Ministers for approval. Decisions taken by Education Ministers on these recommendations, and the reasons for them, should be publicly available to ensure that the funding process remains as open and transparent as possible.

Box 14: Proposed roles of the National Schools Resourcing Body

- Reviewing schooling resource standard per student amounts and loadings before the start of each quadrennium (or at some other set interval).
- Calculating the annual indexation adjustment to the schooling resource standard per student amounts according to a process agreed by the Australian Government and state and territory Education Ministers, and recommending these to Education Ministers for approval.
- Compiling data and undertaking research necessary for the above tasks in collaboration with data-gathering bodies (for example, state and territory education departments, relevant non-government school sector bodies, DEEWR, ACARA and the ABS).
- Undertaking research and analysis on effective measurement of educational outcomes and providing recommendations to Education Ministers to support continuous improvement in schooling and strengthening the data collected to achieve this.
- Investigating the feasibility of developing a national capital standard.

Structure and accountability

The National Schools Resourcing Body should be an independent statutory body but should be accountable to the Australian Government and state and territory Education Ministers through MCEECDYA. Education Ministers should be responsible for the appointment of members, and ensuring they have the relevant expertise to fulfil the roles required of the body. These members should be appointed on merit and not on the basis of sectoral representation.

The body's own governance arrangements, as well as its structure and nature, would need further consideration in relation to its functions. While the National Schools Resourcing Body would be accountable to the Australian Government and state and territory Education Ministers, the scope of its independence would need to be defined in legislation, along with the scope for Education Ministers to issue directions to it in some circumstances.

The National Schools Resourcing Body would require administrative support for its day-to-day operations, as well as ongoing management of the work, including the commissioning of relevant research and work on data collection and improvement. A budget would be provided to enable the National Schools Resourcing Body to operate, and to support the commissioning of research that is directly relevant to its work. The panel proposes that funding should be shared by the Australian Government and the states and territories, with the exact share to be determined through MCEECDYA.

Recommendation 35

The Australian Government and state and territory governments should establish a National Schools Resourcing Body. This body would be made responsible for a range of tasks including:

- the ongoing maintenance and development of the schooling resource standard and loadings
- the annual indexation and periodic review of the schooling resource standard and loadings based on the latest available data
- ongoing research, analysis and data improvement to ensure continuous improvement within the schooling sectors
- developing expected standards to which school buildings must be maintained and built.

Members would be appointed to the body on the basis of merit and expertise, and be independent of government. The body should be provided with a realistic operational budget funded by all governments to support the commissioning of research and data work as appropriate.

Establishing an advisory group

It is appropriate that the schooling sectors have input into the deliberations of the National Schools Resourcing Body. To achieve this in a formal structure, the panel proposes that MCEECDYA establish a small advisory group to provide advice to the National Schools Resourcing Body on schooling matters relevant to the work being undertaken and the recommendations being provided to Education Ministers.

The advisory group would be made up of representatives across the schooling sectors. The advisory group should be of sufficient size to ensure representation, but should be limited to maintain functionality. Membership should include government officials, and representatives from the non-government school sector.

Recommendation 36

In establishing a National Schools Resourcing Body, the Australian Government and state and territory governments should also establish a representative advisory group to provide advice to the body on schooling matters. Membership should include representatives from both the government and non-government school sectors.

4.4.2 Roles and responsibilities of the Australian Government and the states and territories

For the new funding framework to be supported by an effective partnership between the Australian Government and state and territory governments, the panel believes that the roles and responsibilities outlined in the National Education Agreement should be revisited.

The panel recognises that the states and territories have constitutional responsibilities for the delivery and management of schooling. They require a strong degree of autonomy to meet the needs of their state or territory, school communities and student population. The panel also recognises that the outcomes of schooling are a national issue, influencing the economic and social wellbeing of Australia.

The current national schooling reforms are heading in the right direction, but the funding system needs to fundamentally change to strengthen these reforms. This will require further articulation and development of the roles of the Australian Government and the states and territories, particularly if the Australian Government commits to investing more funding into the government sector, and if the states and territories commit to increased investment in the non-government sector.

The panel considers the Australian Government's roles and responsibilities should include, but not be restricted to:

- a commitment to greater funding support for government schools based on the schooling resource standard and loadings and the funding framework set out in Chapters 4.2 and 4.3
- driving public transparency and accountability through the expansion of performance data available on the *My School* website, as well as public accountability on planning decisions through the School Planning Authorities (see Chapter 4.3)
- continuing the current national reform agenda and additional action on the reform directions as discussed in Chapter 5.1
- working in genuine partnership with the states and territories, respecting the role each jurisdiction must fulfil while recognising the national importance of a high-quality school sector.

In return for additional Australian Government funding, particularly in support of government schools, the states and territories should be required to commit to supporting the proposed funding framework, including the schooling resource standard. The panel considers these specific commitments should include:

- supporting continued national reform in schooling and working in partnership with the Australian Government, recognising the national importance of schooling
- playing a greater role in funding non-government schools and ensuring funding certainty for the non-government sector through appropriate legislation, as part of a more coherent approach to funding all schools regardless of ownership
- continuing responsibility for the delivery of schooling and the provision of universal education
- enhancing local decision making, particularly enabling schools to respond to the specific educational requirements of their local communities
- supporting greater transparency of funding allocation and the methodology used to allocate funding to schools
- supporting improved data collection and transparency through the National Schools Resourcing Body for the purposes of setting and reviewing schooling resource standard per student amounts and loadings.

In addition, the panel recommends that individual state and territory agreements with the Commonwealth be developed as schedules to the revised National Education Agreement. These bilateral schedules will allow for the Australian Government and the states and territories to develop transparent and locally flexible arrangements, in addition to those agreed at a national level through a National Education Agreement. It will also provide the Australian Government with flexibility to implement the new funding framework on a jurisdictional basis to support those states and territories willing to commit to the funding framework. The panel considers that these state and territory schedules should address:

- specific areas of educational performance where improvement is sought in that state or territory, with all parties working together to achieve improvement, particularly for failing schools
- the balance of funding between the Australian Government and the states and territories, working in partnership to achieve greater funding balance for all schools
- any state or territory specific arrangements required to transition to new funding arrangements
- funding commitments to government and non-government systems and schools in each jurisdiction in relation to the schooling resource standard, including any proposed increases or transitional arrangements over time.

Recommendation 37

The current National Education Agreement should be revised to ensure that it meets the requirements of the new funding framework and reflects the renegotiated roles and responsibilities of funding partners. This should also include the development of state- and territory-based schedules attached to the revised agreement that reflect specific funding and educational requirements of that jurisdiction.

4.4.3 Roles and expectations of non-government systems and independent schools

The panel considers that funding agreements supported by appropriate legislation are the most effective means of committing all parties to achieving educational outcomes and ensuring accountability for the expenditure of public funding. Non-government school systems and independent schools should continue to enter into a funding agreement with the Australian Government and the states and territories in return for public funding. In signing up to the new funding framework, non-government systems and independent schools will be required to commit to a range of measures to improve the accountability and transparency of public funds they receive. These measures should include, but not be restricted to:

- agreeing to the publication on the *My School* website of funding allocated to member schools from all sources, as well as the level of public funding which the school would attract under the schooling resource standard and loadings (applies to non-government systems only)
- working with the Australian Government and the states and territories to provide additional information on the *My School* website. This should include information on a school's capital stock as recommended in Chapter 4.3. It may also include additional data as recommended by the National Schools Resourcing Body or ACARA and as agreed to by Education Ministers
- agreeing to work with the Australian Government and the states and territories on schooling reform and to address areas of educational underperformance in member schools
- participation in the work of School Planning Authorities and the National Schools Resourcing Body advisory group.

Non-government schools that do not commit and comply with the conditions as outlined in the relevant funding agreements should not be eligible for public funding.

As part of the additional requirements on non-government systems and schools, the Australian Government and the states and territories should review data collection and reporting practices to ensure that the reporting burden on the non-government sector is streamlined and does not unnecessarily distract from a school's primary function of providing quality education to its students.

Recommendation 38

The Australian Government and state and territory governments should negotiate revised funding agreements with non-government system authorities and independent schools to reflect roles and additional conditions under the new funding framework and in line with a renegotiated National Education Agreement with state- and territory-based schedules.

4.4.4 Legislation

To support the funding agreements, Australian Government funding for government and non-government schools should continue to be provided under legislation. The panel is also of the view that state and territory government funding to non-government schools should be legislated. This provides certainty of funding amounts for all schools and supports a greater transparency of funding consistent with the funding principles outlined in the Deloitte Access Economics report (Deloitte Access Economics 2011).

The panel recommends that agreements and legislation should support a 12-year funding cycle. This provides additional security for schools and distances school funding from the political cycle. It also reflects a complete cycle of education for a child and is in keeping with a funding framework where educational outcomes represent the basis for funding through a schooling resource standard. Legislation should be subject to periodic review in line with the review of agreements and the schooling resource standard and loadings.

State and territory governments would continue to be responsible for the allocation of funding and resources to individual government schools and through their systems in the most efficient and effective ways to meet the needs of students based on their own judgments of need. They would also be required to comply with any conditions outlined in the agreement with the Commonwealth.

Recommendation 39

The Australian Government and state and territory governments should legislate the proposed funding framework to ensure certainty and transparency of public funding for all systems and schools. Legislation at both levels of government should operate together to ensure that the total level of public funding is guaranteed for all systems and schools over a 12-year cycle.

4.4.5 Strengthening regulation and accountability

A key aspect of the new funding framework will be strengthened regulation and planning arrangements. This will include improved information on how schools are performing across a range of nationally consistent or comparable educational measures. As well as promoting public accountability of all schools, it enables governments to better address areas of educational underperformance and showcase examples of educational excellence. The panel regards transparency as essential for public accountability. It will help build community confidence in the robustness and adequacy of funding, as well as the capacity of schools to demonstrate continuous improvement and achieve excellent outcomes for their students.

Improved planning arrangements, particularly in the establishment of new schools and providing schooling in growth corridors, will also be a feature.

Responsibilities for students

The Australian Government relies on the state and territory governments to operate effective school systems and to provide an appropriate framework under which all schools can operate. The states and territories have a range of measures to ensure that government and non-government schools deliver appropriate education to students. These arrangements are reasonably similar in each state and territory, particularly in relation to the requirements that ensure schools adhere to curriculum and teacher qualifications. The panel considers that the states and territories are in the best position to continue this role along with continuing responsibility for the registration and the ongoing administration of all schools within their jurisdiction.

Schools have an obligation to educate and support each student with care, dignity and fairness. The panel acknowledges that not all students fit into all types of schools. However, schools have a responsibility to ensure that students who are unable to remain within a school are supported to find the most appropriate learning environment for their needs.

Schools in receipt of public funding should have in place policies that deal with the welfare of their students. This should extend to ensuring that students who are no longer able to attend a particular school are supported until they are settled in a new school.

Finding 25

All schools are responsible for supporting students who are unable to remain within a school, and should have welfare policies that seek to find the most appropriate learning environment for their needs.

Accountability

The *My School* website now plays an important role in providing information on schooling to the public. This information is particularly valuable for developing public policy. The panel considers that the data collected by ACARA should be expanded to include a broader range of nationally comparable educational and financial measures.

The collection of additional performance data will broaden the range of information available to the public on schooling, improving public accountability and providing parents and caregivers with more detailed and complete information about the school their child attends. Public reporting is an important and effective means of achieving accountability for the expenditure of funding and educational outcomes. The panel considers this to be a mechanism that can operate in conjunction with other requirements established through legislation and agreements.

In addition, the funding information presented on the *My School* website should enable parents and policy makers to compare the amount of funding a school is actually receiving with the estimated public funding as calculated under the schooling resource standard and loadings methodology. This is not intended to undermine allocative decisions made by school systems, but rather to ensure that Australia's schooling system as a whole is publicly transparent on both educational performance and funding allocations.

Recommendation 40

The National Schools Resourcing Body should work with the states and territories, the non-government school authorities and the Australian Curriculum Assessment and Reporting Authority (ACARA) to develop a more robust national data collection, consistent with the proposed funding framework, that allows for a deeper national understanding of schooling outcomes. The appropriateness of what data should be used should be jointly worked through by the Ministerial Council for Education, Early Childhood Development and Youth Affairs, ACARA and the National Schools Resourcing Body.

4.5 Philanthropy

As detailed in earlier chapters, schools receive funding from the Australian Government, state and territory governments and private sources. Traditionally, private funding has been provided to schools by families in the form of fees. In 2009, the total income⁸ of all Australian schools was almost \$40.4 billion, of which fees contributed \$6.7 billion. In addition to fees, \$1.4 billion was provided to schools from other private sources, including donations and sources such as profit on the sale of fixed assets, interest, dividends and profits from 'other activities' (ACARA dataset 2011).

Financial contributions from private sources form an important part of the overall investment in Australia's schools. However, the relationships that can form between schools and the community through a range of non-monetary philanthropic activities also have a positive impact on student outcomes. These activities can include volunteering time, the sharing of expertise and mentoring.

This chapter discusses philanthropic giving in its many forms, and how it can play a significant role in supporting governments to improve the outcomes of students in schools, particularly schools servicing disadvantaged communities.

4.5.1 Philanthropy in Australia

Many Australians equate philanthropy with donating money, perhaps to a disaster relief fund, or attending a fundraising event. Philanthropy, however, is much broader in scope. According to Philanthropy Australia, it 'is a desire to improve the welfare of humanity through the giving of money, time, information, goods and services, influence and voice for community good' (Philanthropy Australia 2011).

The most comprehensive review of philanthropy in Australia to date indicated that individuals and businesses in Australia donate around \$11 billion annually, and Australian adults volunteer around 836 million hours of time annually (Department of Families and Community Services 2005). This represents significant social investment in Australia that is independent of investment by governments.

An analysis of data from a recent Gallup WorldView poll has shown that Australia, along with New Zealand, is the most generous of the 153 countries surveyed, based on the proportion of the population giving money to charity, volunteering time and helping a stranger (Charities Aid Foundation 2010).

While Australia may have the largest proportion of its population giving money and time to charity in the world, we trail other countries such as the United States and England in terms of our philanthropic monetary giving as a proportion of our GDP. In 2004, giving as a proportion of GDP in the United States was 1.6 per cent and for Australia it was 0.68 per cent (Department of Families and Community Services 2005).

4.5.2 Philanthropy in schooling

The education sector as a whole, which includes school education, adult and tertiary education, and research, attracts among the highest numbers of volunteers in Australia and is the fifth highest recipient of donations, after religious organisations, international aid, community or welfare organisations and medical research (Department of Families and Community Services 2005).

⁸ Gross recurrent income received by schools from Australian Government and state and territory government funding, fees, charges, and other private sources.

In submissions and consultations during the review, philanthropy was seen as an area that is currently underdeveloped in government schools in Australia, when compared with other school sectors and practices in other countries.

While non-government schools have been promoting philanthropic giving for decades in some instances, it is largely a new area for government schools. This can be partly explained by historical differences in funding between school sectors in Australia. Between the late 19th century and the 1960s, state and territory governments focused on building secular government school systems and they—along with the federal government—did not provide funding to non-government schools during this time. Non-government schools relied on fees, private contributions and assistance from churches to exist, creating a culture of engaging the community in philanthropy not experienced in government schools.

There are international examples of governments working to increase philanthropic giving in government schools. Private investment in public education has dramatically increased in England since the late 1990s, when a range of reforms were introduced to encourage this investment (Caldwell 2004). These reforms have included the creation of academy schools where low-achieving public schools are partnered with corporate sponsors to plan and implement improvements in school performance. When the initiative commenced, sponsors were required to contribute significant private funding towards school reform. This policy has since been revised to enable high-performing schools and universities to take on the sponsor role without having to make a financial contribution. The academy schools are similar in concept to charter schools in the United States, which have also been successful in attracting significant philanthropic support.

It should be noted that these initiatives have not been without controversy. While there have been clear benefits in terms of increased investment in schooling, and in some cases improved student outcomes, concerns have been raised around the level of influence that has been exercised by sponsors in these countries, the sustainability of the new investment and whether these initiatives lead to improved outcomes in the long term. It is important to learn from these initiatives and progress philanthropic activity in an Australian context, which aligns with our vision for schooling in Australia.

4.5.3 Benefits of philanthropy in schooling

Media attention on philanthropy in schooling is often focused on donations from individuals and businesses to school building funds and the superior facilities that result in non-government schools with high socioeconomic status communities. However, the benefits of philanthropy should be considered more broadly. Philanthropy can and should be used to create partnerships with those schools that have the greatest need to improve student outcomes.

There is growing recognition that, at the local community level, many schools cannot overcome their particular schooling challenges alone and that collective action through school and community partnerships can help to strengthen efforts by governments to address educational disadvantage (Black 2009). The importance of all schools developing partnerships with their communities to foster improved student outcomes is clearly articulated in the Melbourne Declaration.

For example, the Australian Indigenous Mentoring Experience (AIME) is a program, supported by universities, schools and philanthropic donors, which partners university students in a mentoring relationship with Indigenous high school students with the aim of increasing high school completion rates and progression to university. According to its 2010 annual report, 25.1 per cent of AIME high school students involved in the program will progress from Year 9 through to university, compared with the national rate for Indigenous students of 3.2 per cent. In 2011, 1000 mentors and 1000 high

school students were involved in the program across three states, and the AIME intends to roll out the program to 6000 high school and university students by 2020.

The Australian Business and Community Network (ABCN) is a partnership of national business leaders and companies working on mentoring and coaching programs with a focus on schools in particular areas of need. In 2010, ABCN programs were run in 188 schools in all states and the Australian Capital Territory, with 8800 students involved in activities. The ABCN Partners in Learning Program matches principals and senior staff in schools with chief and senior executives in businesses to share experiences, solve problems and explore leadership challenges together. This contributes to the professional development of teachers and school leaders, another driver of improved educational outcomes.

4.5.4 Barriers to philanthropic giving to schools

Capacity at school level

Schools have very different starting points in terms of their knowledge and capacity to seek out and secure philanthropic donors (Anderson 2011). A school's ability to maximise the impact of philanthropic contributions can be limited if school leaders lack the time to utilise these resources effectively. The centralised nature of school systems may also result in the limited discretion of principals to make certain resourcing decisions.

Other schools have well developed contacts with business and networks within their communities, such as alumni structures, which can generate additional funding and other support such as professional advice to the school. This type of giving appears to primarily benefit some non-government schools and selective government schools. In particular, it is difficult for schools in all sectors that service low socioeconomic status communities to access resources and capabilities from their immediate communities in the same way that schools in more affluent areas can. These schools are less likely to have networks, the confidence to approach potential donors, or the time and resources to devote to grant applications.

In addition, there is a misconception in the government sector that government schools are unable to receive philanthropic support, which could stem from a lack of policy support from education authorities. A lack of budget autonomy at the school level in some government school systems may create the perception that funds cannot be directed to an individual school (Business–School Connections Roundtable 2011).

Education authorities may be discouraged from actively providing support and training to promote philanthropy by the perception that it could attract criticism that they were evading their responsibility to adequately fund schools (Witcombe 2011). Education authorities may also be responding to concerns in the community over philanthropic activity in government schools, including the level of influence that corporations and other philanthropic donors may have over schools, and the time taken to engage potential donors. The Australian Government has commissioned a consultancy to address these concerns. The consultancy, due to report in May 2012, will develop guiding principles for school–business relationships that are voluntary and supportive, encourage good practice and emphasise mutual benefit.

An additional concern from education authorities may be that, because the government school systems cater for students in communities across the socioeconomic spectrum, encouraging philanthropic support for government schools will inevitably mean that some government schools will have significantly more opportunities than others to make use of this opportunity.

Despite these issues, there have been some encouraging efforts to support philanthropic giving in the government sector in some states and territories. A recent example is the Victorian Government's Business Working with Education Foundation (see Section 4.5.5).

Barriers to philanthropic giving experienced by individuals and organisations

Individuals and businesses wishing to give to schools may have limited knowledge of the best way to provide support to specific students and schools. Unless a donor has an existing relationship with a school, there may be difficulty in determining which school or schools to support, who to approach to make contact, and how to coordinate philanthropic giving across a number of schools.

In particular, it can be difficult for individuals and businesses to strategically engage with education authorities in the government sector because policy in relation to philanthropic giving to government schools may be complex or unclear.

Limited taxation incentives to donate to schools

A number of submissions to the review indicated that tax incentives are an important consideration for private individuals, charitable funds or foundations and businesses when making donations, particularly for major giving.

Certain organisations or funds can be endorsed by the Australian Taxation Office to receive income tax deductible gifts and are referred to as deductible gift recipients (DGRs). Tax deductible gifts can, in general, only be made for the following:

- the acquisition, construction or maintenance of a building
- scholarships, bursaries or prizes
- other specified areas (gifts made to public funds established for religious education in government schools; the acquisition, construction or maintenance of rural school hostel buildings; and government schools that provide special education for students all of whom have disabilities) (Australian Taxation Office 2011).

Some state and territory trust laws limit the ability of government schools to receive DGR status donations. In some instances, P&C associations have created DGRs to receive donations on behalf of government schools. Non-government schools do not face the same barrier to receiving donations. Differences in state and territory trust laws have led to a widespread misconception that government schools are unable to benefit from DGR status donations (Business–School Connections Roundtable 2011).

As there is a significant administrative burden to endorse and administer DGRs, current arrangements are viewed to disadvantage schools with limited capacity to allocate resources to these tasks. Over the last two years, measures to reduce the administrative burden on the not-for-profit sector have been introduced by the Australian Government. A taskforce has commenced work to establish a 'one-stop-shop' regulator of the sector, the Australian Charities and Not-for-Profits Commission, by 1 July 2012. The commission will be responsible for providing education and support to the sector on technical matters (Shorten 2011). This work may have a role in clearing up misconceptions about donations to government schools and reduce barriers to creating DGRs.

4.5.5 Current approaches to philanthropic giving to schools

Aside from donations made directly from individuals to schools, which are often a result of existing relationships between schools and their communities, there are other models for philanthropic giving to schools in Australia.

The Business Working with Education Foundation is an example of a public intermediary established by the Victorian Government in 2010. It was created to provide a simple mechanism for business to provide philanthropic support to government schools in particular. It assists individuals and businesses to connect with key stakeholders inside and outside the Victorian Department of Education and Early Childhood Development, and provides support for schools and not-for-profit organisations to develop partnerships (Business Working with Education Foundation 2010).

The Public Education Foundation is a not-for-profit charity established in 2008 that works with the New South Wales Department of Education and Communities to provide scholarships for disadvantaged students with particular education needs in government schools (Public Education Foundation 2011). It provides various options for individuals and organisations to contribute to the foundation, from one-off donations to volunteering opportunities, through to opportunities for businesses to create scholarship funds.

These approaches are relatively new, and it will be some time before their success can be evaluated. Nevertheless, there is clear potential for these approaches to promote philanthropic giving in government schools. Firstly, the entities remove the burden of establishing and administering deductible gift recipients from school staff or P&C associations. They act as an intermediary between government schools and businesses or other donors that may not have the time, skills or experience to make those connections themselves, and are a source of information to donors and schools on the most effective ways to proceed with a philanthropic relationship.

The entities also work with state and territory governments to target funds to priority areas, such as identified disadvantaged government schools. They allow for donations to be secured from multiple sources and consolidated for widespread and/or strategic impact, such as for scaling up existing proven initiatives. Funds can be invested strategically across regions or clusters of schools, without givers having to negotiate multiple relationships.

The Queensland Government has adopted a different approach, partnering with Indigenous leaders and educators, the Australian Government, universities and philanthropic groups to form the Stronger Smarter Institute and the Cape York Institute. This approach focuses on programs to develop Indigenous school leaders and improve educational outcomes for Indigenous students.

Although funds created by governments for philanthropic activities in schools are relatively new, other philanthropic funds and foundations focused on school education are more established. For example, the Foundation for Young Australians, which has origins dating back to the late 1970s, conducts research, programs, advocacy and other philanthropic activities to provide opportunities for young people to take a lead role in their school and community.

A number of businesses have developed their own programs aimed at fostering partnerships with schools and assisting disadvantaged students. For example, Stockland has partnered with Fairfield High School in New South Wales to implement a number of initiatives, including 'Our Faces, Our Stories', a literacy and mentoring program for students, many of whom are refugees (Stockland 2010).

There are also cross-sectoral collaborative approaches to philanthropic giving to schools. The Linking Schools and Early Years Project is a collaborative cross-sectoral venture funded by a private

philanthropic trust, the R E Ross Trust and run by the Centre for Community Child Health at the Royal Children's Hospital in Melbourne. It brings together a number of Australian Government and Victorian Government departments, the Catholic Education Office, The University of Melbourne, the University of New South Wales, and the Education Foundation to bridge the gap between early years services and primary schooling in disadvantaged areas. It helps schools engage with families to overcome the barriers faced by vulnerable children when starting school (Black 2009).

4.5.6 Potential approaches to encourage philanthropic giving

A fund to encourage philanthropic giving to schools in low socioeconomic areas

Despite recent initiatives to increase philanthropy in schooling, it is clear that more can be done to encourage activity in this area. Approaches to encourage philanthropy in schools should increase their capacity to form philanthropic relationships, reduce barriers to private investment, and provide national leadership and direction in focusing philanthropic activity to all disadvantaged school communities.

The panel considers that there is scope for the Australian Government, in consultation with the schooling sectors, to develop a philanthropic fund with deductible gift recipient status focused on assisting schools to develop philanthropic partnerships.

The fund could work alongside existing public and private funds and community organisations, including those established by state and territory governments, to raise awareness of the importance of improving educational outcomes to Australia's prosperity. It would also provide information on how to donate to schools and facilitate connections between donors and education providers across the country. This fund would not replace existing connections between schools and the community, but provide a vehicle for strategic investment and national leadership.

The fund could operate in conjunction with the proposed National Schools Resourcing Body, possibly in partnership with a private partner or partners. It could operate by attracting support (cash and in-kind) from businesses and other trusts and foundations, private individuals and communities. These donations would fund initiatives designed to improve student outcomes, particularly in low socioeconomic areas.

The fund's scope of giving should be wide. It should include the traditional school building improvements and scholarship categories, but also allow for much wider injections of funds for the improvement of schools in low socioeconomic areas or serving students from such areas. To this end, the fund should be established to allow donors to influence how funds are directed, if they wish to support a specific school or community.

The fund should also have a role in assisting disadvantaged schools to develop capacity to advance philanthropic partnerships. This could be achieved by the fund having on staff a group of people with philanthropic experience and capacity to support individual schools and/or regions to develop philanthropic partnerships for the purposes of specific projects or indeed generally. The cost of such a group could perhaps be funded by the Australian Government on the basis that the return from such investments will have a 'multiplier' effect.

Clusters or networks of schools and community organisations in disadvantaged areas could work with the fund and state education providers to strategically direct resources to where they are most needed and where they will have the highest impact. The fund could have a role in scaling up effective small-scale pilot programs and implementing them across state and territory borders.

Capacity building

Approaches to build capacity in schools to develop partnerships with business and the community, including those with a philanthropic element, have recently been canvassed in *Realising potential: Businesses helping schools to develop Australia's future*, a report by the Australian Government Business–School Connections Roundtable. Among other initiatives, the report recommended that the Australian Institute for Teaching and School Leadership ensure that:

- the support material developed for the National Professional Standards for Principals and the National Professional Standards for Teachers include recognition of the role of principals and teachers in benefiting students by building relationships with business and the broader community
- professional learning which is developed to support the standards include components through which principals and teachers can develop their knowledge of, and competency in, building relationships with business and the broader community.

This appears to be a relatively cost-neutral approach to increasing skills and expertise in community engagement at the school level, and can also help to foster the development of philanthropic relationships.

Finding 26

The panel notes the Australian Government's response to the recommendations in the *Realising potential: Businesses helping schools to develop Australia's future* report, particularly those aimed at building capacity in schools to develop partnerships with community and business.

Increase taxation incentives for donations to government schools

There has been debate on the effectiveness and efficiency of tax incentives in increasing philanthropic giving (McGregor-Lowndes, Newton and Marsden 2006). There is limited Australian data to determine the impact of increasing tax incentives. Analysis recently undertaken by the Productivity Commission on international data indicates that tax deductions were likely to increase charitable donations in the education sector by more than the reduction in taxation revenue (Productivity Commission 2010). Submissions to the review from the business sector also indicated that tax incentives would encourage greater giving.

It is clear that taxation incentives can be a factor when potential donors evaluate whether they will give to a recipient in the first instance. This initial donation can open a conversation between donor and recipient that may lead to ongoing philanthropic relationships (Scaife 2011).

The panel agreed that creating a national fund with deductible gift recipient status would be an appropriate and effective approach to schools having to navigate through taxation requirements when receiving philanthropic support. The panel supports providing means to make donations to government schools tax deductible but not in a prescribed way, so that there is flexibility to direct donations to areas of greatest need subject to the wishes of the donor.

As well as removing the necessity for administering donations from government school staff or P&C associations that do not have the expertise and resources, a fund would work to assist giving across the government school sector so that schools in the most need could be supported.

4.5.7 Conclusion

There is evidence that Australians have a preparedness to donate time, money and expertise, and data show a significant level of giving. Philanthropic giving, as one aspect of community engagement with schools, is beneficial to students and should be encouraged.

It is important that incentives to philanthropic giving not only encourage traditional methods of giving to schools, but focus on leveraging improved educational outcomes for students, particularly in schools servicing disadvantaged communities.

Nationally, better arrangements could exist for schools and donors to make connections, and provide a more strategic focus for philanthropic giving. This presents an opportunity for the Australian Government to take a leadership role in profiling the importance of business and community engagement with schools, and using emerging collaborative models of philanthropy to facilitate this.

Recommendation 41

The Australian Government should create a fund to provide national leadership in philanthropy in schooling, and to support schools in need of assistance to develop philanthropic partnerships.

4.6 Modelled results of the new schooling resource standard

The panel commissioned modelling to test the feasibility and impacts of the schooling resource standard and funding model set out in Chapters 4.2 and 4.3 of this report.

In commissioning the modelling, the panel had to make a number of determinations that are set out below. These determinations and results of the modelling confirm that the new framework is workable and will achieve the objectives sought by the panel. It also satisfies the Australian Government's commitment that no school would lose a dollar per student as a result of this review.

The panel proposes that its determinations and the model arising from them should be thoroughly tested and refined in the months following the date of this review. In particular, the panel believes that the determinations and the model generally should be refined in discussion with each state and territory government and also representatives of non-government schools.

The final shape of the funding arrangements can be determined only on the basis of such consultations. It is for this reason that the panel has given the ranges of its determinations and the outcomes of its modelling as a first stage and not as a final and binding statement.

The panel also understands that there will be significant issues to work through, including the fiscal constraints on governments at the present time. However, the panel believes that this work is urgent and that the necessary discussions and refinement of the model should commence as early as possible so that it can be implemented from 2014, when the existing arrangements for non-government schools are due to end.

Panel's determinations to allow modelling of the schooling resource standard

The modelling of the new schooling resource standard requires two sets of determinations. The first is to determine the level of the primary and secondary per student amounts and the second is to determine the loadings to be applied on top of the per student amounts.

As a basis for setting per student amounts, the panel adopted an initial student outcome benchmark based on schools where at least 80 per cent of students are achieving above the national minimum standard for their year level, in both reading and numeracy, across each of the three years 2008–2010. Based on this, and the methodology described in Chapter 4.2, the panel has determined indicative estimates based on 2009 data of the per student amounts as described in Table 21.

The second determination was of the loadings, expressed as percentages of the per student amounts, for student- and school-based sources of disadvantage. These would apply where additional resources are needed to provide the same opportunities as in schools with minimal educational disadvantage. Indicative ranges for these are set out in Table 22.

Table 21: Schooling resource standard per student amounts – indicative estimates 2009 (excluding loadings)

	Primary	Secondary
Indicative estimate (excluding loadings)	About \$8,000	About \$10,500

Table 22: Schooling resource standard loadings – indicative ranges

	From (lower end of range)	To (upper end of range)
School size and location	10% <i>for medium-sized schools in remote locations</i>	100% <i>for very small schools in very remote locations</i>
Low socioeconomic status	10% <i>for each low SES student in schools with under 10% of students in the lowest SES quarter</i>	50% <i>for each low SES student in schools with more than 75% of students in the lowest SES quarter</i>
Indigeneity	40% <i>for each Indigenous student in schools with between 5% and 25% of students who are Indigenous</i>	100% <i>for each Indigenous student in schools with more than 75% of students who are Indigenous</i>
Limited English language proficiency	15% <i>for each student with limited English proficiency</i>	25% <i>for each student with limited English proficiency (for example, recently arrived refugees)</i>

As acknowledged earlier in the report, both the resource standard per student amounts and the loadings will require further work with the states and territories and non-government sector to develop and check these initial estimates. This will need to be progressed urgently in the first half of 2012 to facilitate negotiations over the implementation of the new funding arrangements and to enable governments to conclude negotiations leading to legislation in the second half of 2012. Once it is established, the National Schools Resourcing Body will provide independent and expert advice to governments on setting and updating the primary and secondary per student amounts and the loadings.

Results of the modelling

The panel modelled the impact of these arrangements on government expenditures based on determinations about the indicative 2009 level of the schooling resource standard per student amounts and loadings and the arrangements for public funding. On the basis of these determinations, the modelling results indicated that, if these arrangements had been implemented in full during 2009, the additional cost to governments would have been about \$5 billion or around 15 per cent of all governments' recurrent funding for schooling that year.

All sectors would have received increased government funding, but the largest part of this increase (about three-quarters) would have occurred in the government sector reflecting both its share of student enrolments and the relative extent of concentrated disadvantage across sectors. The remainder of the increase would have occurred across the Catholic and independent sectors.

The panel also made determinations regarding how the schooling resource standard should be funded. In the government sector, it has recommended arrangements in which the Australian and state and territory governments together take full responsibility for funding the recurrent costs of schooling for government schools. Governments would also fully publicly fund a small number of non-government schools.

As suggested in Chapter 4.3, the panel has recommended that most non-government schools would receive public funding on the basis of an anticipated private contribution related to the SES score of the school. A minimum anticipated private contribution of 10 per cent of the resource standard per student amounts would apply for schools in the lowest quarter of school SES scores, that is, with a score up to between 90 and 95. A maximum anticipated private contribution of between 75 and 80 per cent of the resource standard per student amounts would apply for schools with an SES score above around 130.

Based on its current proportion of total funding, the Australian Government would bear around 30 per cent of the increase. How the additional cost is actually borne will need to be discussed and negotiated between all governments. It would be a decision for the Australian Government as to whether it is prepared to bear more of the increase to assist the states and territories in giving effect to the new schooling resource standard. It is imperative that governments work collaboratively to finalise the necessary details and negotiate appropriate funding responsibilities, even if this involves these additional commitments being made over a period of years.

The panel acknowledges that this would represent a significant increase on existing levels of public funding at a time when all governments are facing serious fiscal pressures due to economic uncertainty and competing priorities for public expenditure. However, the panel is strongly of the view that introduction of a schooling resource standard is required urgently from 2014 in Australia's national interest. Therefore, it is imperative that all governments work collaboratively to finalise without delay the necessary details and negotiate appropriate funding responsibilities. The justification for this additional investment is set out in Chapter 4.7.

4.7 Justification for additional investment in Australian schooling

The panel's new framework for resourcing Australian schools, when modelled based on the Australian Government's announcement that no school would lose a dollar per student as a result of this review and the determinations made by the panel and set out in Chapter 4.6, results in a significant additional investment being needed by governments. The panel accepts that resources alone will not bring about real change and that extensive reform is also required to the delivery of schooling. Chapter 5.1 notes that these broader reforms need to address teaching practice and quality, school autonomy and leadership, high expectations of schools and students, and the creation of 21st century learning opportunities, among other areas.

The need for additional investment is not a surprising result to the panel for several reasons.

Firstly, the new funding arrangements must be aspirational and reverse the slippage evident in our overall schooling performance over the past decade. The absolute decline in performance as measured by PISA in reading and mathematical literacy is evident at all levels of achievement. Australia's weak performance in reading and mathematics compared to Canada (a similar country) and Singapore (our nearest Asian neighbour participating in PISA) illustrates a serious cause for concern and suggests significant educational reform is needed to address the competitive disadvantage our children face.

A worrying proportion of Australia's 15 year-olds perform in PISA at a level which puts them at serious risk of not being able to adequately participate in the workforce and contribute as productive citizens. In PISA 2009, 14 per cent of Australian 15 year-olds did not achieve the baseline level of reading proficiency at which students begin to demonstrate the skills that will enable them to participate effectively and productively in life. While this was below the OECD average (19 per cent), it was significantly higher than in high-performing countries such as Korea (6 per cent), Finland (8 per cent) and Canada (10 per cent) (OECD 2010).

Up to half of the students who do not reach this baseline proficiency level come from the bottom quartile of PISA's index of economic, social and cultural status. However, there are at least as many underperformers in higher quartiles of the index. This implies that extra financial resources on their own are not sufficient to meet the education needs of all students. Settings for the schooling resource standard per student amounts also need to reflect the aspiration to improve performance across the board.

Secondly, Australia faces a very serious challenge in improving the equity of schooling outcomes for children from disadvantaged social backgrounds. In the 2009 PISA assessments, around one-quarter of Australian 15 year-olds in the lowest economic, social and cultural status quartile performed at a level which puts them at serious risk of not being able to adequately participate in the workforce and contribute as productive citizens.

Over 80 per cent of students who did not reach the level required for proficiency to participate in society in reading and mathematics are in government schools. They represent about 19 to 21 per cent of government school students, compared to between 8 and 10 per cent for Catholic schools and between 5 and 8 per cent for independent schools. (Thomson et al. 2011). The concentration of this problem in government schools is evidence of the need for a greater increase in resources in those schools in particular.

Finally, these results are a warning that Australia cannot take for granted that we will forever have a productive workforce and a citizenry equipped to prosper in and contribute to the rest of the world as we do now. With increasingly intense global competition for innovative, creative and skilled people, Australia needs to work harder and more cleverly than ever to maintain a knowledge and skill base that can adapt to change and keep up with the world around us. Australia's declining educational performance internationally is something of which no Australian can be proud. Turning this around will require concerted effort and attention and will take time.

Above all, the additional investment needed to implement a schooling resource standard is necessary because, without it, the high cost of poor educational outcomes will become an even greater drag on Australia's social and economic development in the future. The need for the additional expenditure and the application of what those funds can do is urgent. Australia will only slip further behind unless, as a nation, we act and act now.

5 Building momentum for change

5.1 Building momentum for change

The panel's proposed funding arrangements provide a framework for funding reform that aims to move Australia to a high-performing and high-equity schooling system. Central to this reform is the allocation of resources according to the needs of students, regardless of the sector in which they go to school.

While the allocation of resources to areas of greatest need is a necessary condition for achieving improvements in performance across the schooling system, it is not a sufficient condition for doing so. Excellent teaching and school leadership, the ability of schools to allocate and manage resources at the school level, innovative approaches to teaching and learning, effective engagement with parents and the community, and quality assurance mechanisms are all essential elements of a successful schooling system. Many of these factors are being progressed by Australian governments through the national schooling reform agenda.

In this final chapter the panel discusses the current national schooling reforms and the essential elements of a successful schooling system. While the primary purpose of this report has been to recommend a future funding system for Australian schooling which is transparent, fair, financially sustainable and effective in promoting excellent outcomes, the panel acknowledges that improvements in schooling depend on the collaboration of governments and schooling sectors to drive reform in every classroom in every school. The panel's funding recommendations are designed to strengthen the current national schooling reforms and build the momentum needed to achieve the sustained improvements Australia's schooling system urgently requires.

Although much research exists on the key success factors in schooling, this chapter does not set out to discuss the research. Rather, it makes comment on the factors the panel considers to be important in promoting excellent outcomes for all Australian students, as foreshadowed in the review's terms of reference.

5.1.1 The foundations for change

In recent years, all Australian governments have embarked on an ambitious agenda of national schooling reforms. The reforms have created a foundation for improvement at every stage of learning from early childhood and transition to school, through to Year 12 and the transition to further education and work.

Early childhood reforms have focused on seeking to ensure that children start school healthy and ready to learn. A key priority of governments through the AEDI is to identify each child's stage of learning on entry to school, so that children facing developmental barriers can be given the attention needed to catch up with their peers. These children are often from disadvantaged backgrounds, but this is not always the case.

The new Australian Curriculum, which is currently being implemented across all states and territories and schooling sectors, encompasses Australia's aspirations for its young people in terms of the knowledge, understanding, skills and personal qualities and capabilities that they should acquire in schooling.

A number of reforms are focused on improving the effectiveness and capability of the teaching profession in Australia. National Professional Standards for Teachers are being introduced, in consultation with the teaching profession, to define the requisite skills, knowledge and capacities across the four stages of a teacher's career—the graduate, proficient, highly accomplished and lead

teacher stages. The Graduate Standards will be an essential element of the national accreditation of teacher training courses, which will aim to ensure that all teachers receive the quality of preparation needed to be fully effective on graduation. The Proficient Standards will underpin a nationally consistent approach to teacher registration. The Highly Accomplished and Lead Teacher Standards are voluntary career stages for teachers to aspire and progress to. National Professional Standards for Principals have also been developed and agreed with the profession. These standards place greater emphasis on the principal as an educational leader and mentor of teaching staff.

A Charter for the Professional Learning of Teachers and School Leaders has been developed in consultation with the profession. It calls on all Australian teachers and school leaders, and on those who determine policy and make decisions in schools, sectors and systems, to take responsibility for their own learning and to commit to building a purposeful, active and pervasive learning culture in every school and workplace.

A new National Teacher Performance and Development Framework will be developed and introduced in schools across Australia from 2013, as a process of ongoing quality assurance for the profession. The framework will seek to enable all teachers to receive regular and constructive feedback on their performance each year, so that they are able to identify their needs for further professional development.

Reforms have also sought to bring decision making as close as possible to the point at which learning takes place. The Empowering Local Schools National Partnership will provide greater independence for schools in decisions about the funding of education programs and the selection of staff. Research shows a strong correlation between such local flexibility and the achievement of high-quality learning, particularly when local flexibility is combined with accountability through the public reporting of school performance.

An important part of the national schooling reforms has been the focus on transparency and accountability in schooling. Greater access to information leads to better decision making at both a policy level and service delivery level. Through the *My School* website, teachers, parents and students are able to access information to make more informed choices about schools, and policy makers have access to information to understand how well a school is achieving, and the level of support that might be required to help it reach its goals.

Increased national transparency of schooling outcomes has prompted a significant shift in the way schools and school systems think about school evaluation and improvement. A school improvement framework will be developed nationally so that all schools will be able to evaluate and review their practices and performance against national and local measures. This will help schools identify their strengths and weaknesses, and develop a comprehensive school improvement strategy.

As noted in Chapter 1.2, the attainment of Year 12 or an equivalent qualification is an important goal for young people to reach if they are to reap the financial and social benefits of education when they join the workforce, either on leaving school or after a period of further education. The National Youth Participation Requirement, agreed to by all Australian governments in 2009, has resulted in a nationally consistent school leaving age. Under this initiative, young people must complete Year 10 and must stay in school or training until age 17. This initiative is complemented by strengthened participation requirements for income support arrangements and national reforms focused at engaging students at risk of dropping out of school or who have left the schooling system.

5.1.2 National purpose and goals for Australian schooling

The national schooling reforms align with the national purpose and goals for schooling agreed to by all Australian governments in 2008 through the Melbourne Declaration.

The goals focus on promoting equity and excellence in schooling and on young Australians becoming successful learners, confident and creative individuals, and active and informed citizens. Central to realising these goals is providing all students with access to high-quality schooling—schooling that teaches students to create their own futures, solve problems, discover their talents, learn how to learn, and apply their knowledge across disciplines.

The Melbourne Declaration also acknowledges that the education of young people is the collective responsibility of all of society—governments, schooling sectors, individual schools, parents, business and the broader community. Collaborative effort is required to transform Australia's schooling system.

As discussed in Chapter 1.2, the Melbourne Declaration embraces goals in the cognitive domain of learning (what young people know and understand, and the skills they possess), and in the affective domain (their personal characteristics and attributes), which are also important goals of teaching and learning. In the Australian Curriculum these broader outcomes of schooling are included as general capabilities. Employers often refer to them as employability skills.

Academic goals are far more readily measured and reported by external testing than general capabilities. However, an excessive focus on what is testable, measurable and publicly reportable carries the risk of an imbalance in the school curriculum. Independence, confidence, initiative and teamwork are learned as much through elements of the curriculum that are not readily measured by an external test as through those areas in which outcomes can be readily tested and reported.

5.1.3 A great teaching profession

The impact of quality teachers on student engagement and performance is well documented and cannot be underestimated (Goodwin 2010; Hattie 2008; Levin 2008). Barber and Mourshead (2007) found that the quality of an education system depends on the quality of its teachers.

Australia's teachers and school leaders must be valued by the community. Teaching should be regarded as among the most important and respected occupations in our society. It is teachers and school leaders, in partnership with parents, who are directly responsible for developing, guiding and influencing Australia's future generation. Excellence in teaching, in all schools and at all levels of schooling, is by far the single most important factor in achieving sustained improvements in the performance of Australia's schooling system.

The National Professional Standards for Teachers will seek to build public confidence in the teaching profession by providing a nationally agreed quality assurance mechanism. However, this initiative needs to be strengthened by community attitudes that value teachers and the teaching profession.

Lessons can be learned from the world's leading schooling systems, where teaching is a high-status profession. In these systems, competition from school students to become teachers is strong and only the best are selected. For example, Finland has raised the social status of its teaching profession to a level where there are few occupations with higher status, and a master's degree is required to enter it (OECD 2011a). In addition, countries that have succeeded in making teaching an attractive profession have offered teachers greater career prospects, providing responsibility as professionals and leaders of reform.

In a recent report, the Productivity Commission (2011) recognises that the effectiveness and efficiency of the teaching workforce has a key role to play in improving educational outcomes for students. It acknowledges the national schooling reforms and workforce reforms already underway, and sets out a number of opportunities to build on these reforms. These opportunities include improved pre-service teacher practicum and induction experiences through innovative university–school partnerships and supportive learning experiences in school classrooms.

Excellent teaching

In addition to raising the profile of the teaching profession, schooling sectors should continue to focus on achieving teaching excellence in every classroom in every school through allocating resources under the schooling resource standard to this endeavour. There are a number of elements that are key to excellent teaching and improving the performance of students, schools and the system as a whole.

Firstly, the learning needs of students should be identified on entry to schooling. NAPLAN testing of literacy and numeracy at Year 3 is too late to be an entry-level diagnostic tool. In-school diagnosis of skills in reading and number sequencing when children enter schooling at age 5 is the key to a sound foundation for successful learning in the later years. Where children are found not to be at the expected proficiency level, intervention should be immediately available, either for small groups of children or as individuals.

Research on the importance of early identification and remediation suggests that funding priority be given to the training of teachers in the use of the available diagnostic tools, and in the interpretation of results. Funding must also be available to the school to access the appropriate interventions according to the diagnosed needs of the children.

The second key element is the training of teachers in using the curriculum as a resource upon which to draw, to shape learning programs to stretch individual children from their current stage of learning to the next achievable stage. This involves employing personalised learning strategies. This approach recognises that each child, both the high achieving and the low achieving, should be challenged by learning that is currently beyond their reach, but in the judgment of the teacher, achievable with application and effort.

Thirdly, excellent teaching can be fostered through quality instructional leadership provided by the principal and other senior and experienced staff. Creating a whole-of-school approach to teaching and learning, and working with individual teachers with students and in their own classrooms, is the fundamental role of the principal. The bulk of a teacher's ongoing professional development—in the identification of the learning needs, the selection of interventions, the personalisation of learning, and the use of formative or diagnostic assessments—should be done on the job working with students in the classroom, under the mentorship of experienced instructional leaders.

Finally, excellent teaching requires a whole-of-school shared understanding of what constitutes good pedagogy. This involves a shared commitment among staff to achieve the standards of pedagogy to which they aspire, a commitment by each individual teacher to maintain and enhance their pedagogical skills by taking responsibility for their own professional learning throughout their careers, and a school culture which promotes and values open discussion and constructive criticism among teaching peers. More time must be made available for teachers and instructional leaders to reflect upon and plan their teaching practice, and to work together in classrooms to grow and enhance their skills.

5.1.4 Empowered schools and leadership

Research has found that school leadership is second only to teaching in its impact on learning, and has the greatest impact in those schools where the learning needs of students are most acute (Leithwood et al. 2004). Studies have shown that school leaders who are able to make decisions, including decisions about hiring staff and over the school budget, do well in terms of student achievement, providing there are measures of school accountability (Woessmann et al. 2007).

All school leaders and their communities should be empowered to rethink the traditional mode in which schools operate to better meet the learning needs of students, as well as their families and communities. They should have a greater capacity to introduce more flexible school hours to cater for the needs and circumstances of students and their families. There should be greater scope to reconfigure classroom structures to meet the learning needs of different cohorts. School leaders should also make local arrangements to respond to particular needs related to student welfare, mental health and school readiness, and work directly with local public or not-for-profit providers of human services more broadly.

With greater autonomy and budgetary control, schools are best placed to make decisions about how best to use resources, such as tailoring school timetables to meet student needs, hiring specialist help such as literacy and numeracy specialists, and making more time available for teachers to plan or prepare for classes.

Principals and the management committees of non-systemic schools have significant discretion over the budgeting and resourcing of their schools. While it may be unrealistic to provide a similar level of autonomy to systemic schools, it is clear that some systemic schools, particularly those in the government sector, require greater autonomy and flexibility in decision making than is currently the case. However, this autonomy should not interfere with the important role that systems play in supporting systemic schools. The support that most systems provide to their member schools—in the form of regional or diocesan specialist expertise in areas such as curriculum, student welfare, counselling, professional development and administration—is valuable. Similarly, the operational scope of systems gives them a capacity for resourcing and driving reform and innovation in an efficient way.

5.1.5 Developing and sustaining innovation

Developing and sustaining innovation in Australia is critical to maintaining competitiveness in the global economy, and the ability to respond quickly to new developments. Hannon (2009) argues that practices and ideas about leadership, learning, collaboration and the release of collective creativity, which are commonplace in today's workplaces and enterprises, should be a central aim of schools in equipping students for the 21st century.

There is a clear need for young Australians to understand, use and develop new technologies and innovative capability with confidence. Some schools in Australia are promoting innovation through new approaches to teaching that is transforming the way students think and learn. These schools are using creative classroom design to create optimal, non-traditional learning spaces that meet the educational needs of individual students.

A whole-of-school culture that embraces innovation and change can encourage students to be reflective, analytical and adaptable about learning. Schools that embrace innovation and change champion the development of 21st century skills, such as problem solving, creative and critical thinking and collaboration. They also foster partnerships with parents and the community to enrich teaching and learning.

These practices should continue and grow across the schooling system. They could be used to address some of the more unique challenges Australia faces, such as providing high-quality education to students in very remote parts of the country. They could also support teacher professional learning and social networking, helping teachers to share successful teaching practice and pedagogy.

5.1.6 Engaged parents

Parental engagement (including carers and legal guardians) has a large and positive impact on children's learning (Goodall and Vorhaus 2011). The important role parents can play in schooling is reflected in the Melbourne Declaration and the National Education Agreement.

Parents and teachers should work in partnership to set high expectations and support children in their learning and development. Parents should also be supported by the school to contribute to the school's culture and operation. This works best when the parental engagement strategy is part of a whole-of-school approach, and teachers are offered professional learning on how to effectively engage with parents.

Parents need clear, specific and targeted information from schools about their child's learning and development. This can happen through regular dialogue with the teacher and principal, and keeping abreast of the outcomes of both the child and the school as a whole. Parents can also play a valuable role in the operation of the school, and by assisting in the classroom and through management and decision making through school boards and councils.

The increased use of the internet, through initiatives such as the *My School* website, has facilitated communication between schools and families, and the increased engagement of parents in their children's learning. There is an opportunity to build on these initiatives to further engage parents, particularly at critical points in education, such as the transition point between primary and secondary schooling. Innovative approaches that connect parents with their child's learning through interactive online environments should continue and be expanded upon.

5.1.7 Community involvement

Community engagement and linkages with school facilities create a positive image for the school and a sense of ownership for the community. Schools have the potential to become hubs for all levels of education within a community. This could involve using school facilities to provide early childhood learning through to adult learning. Schools within a region could also share resources and facilities with neighbouring schools.

In addition to parents, members of the community can play an important role on school boards and councils. Some schools may be too small to have a separate board, but one advisory board with community representation could work across schools within a defined region. Community involvement can also extend to inviting those in the community with particular skills or expertise, such as artists, musicians or athletes, to enhance the teaching of certain areas of the curriculum and enrich the school experience.

As set out in Chapter 4.5, there is a great desire and capacity in the Australian community to strengthen schools through philanthropic partnerships. Businesses and individuals can help address the disadvantage experienced by students both within schools and the broader community. There can be flow-on benefits that not only provide improved educational outcomes, but also greater post-school opportunities.

5.1.8 Quality assurance

The schooling resource standard seeks to address areas of need and provide systems and schools with greater flexibility in the use of resources. With that responsibility comes the need for accountability for the expenditure of public funds, which involves the systematic use of evidence and data to drive improved performance and greater equity.

The increasing devolution of budgetary authority to schools has also created a need for increased public accountability for the expenditure of funds provided by Australian governments. It is important that accountability for the expenditure of funds in schools does not solely rely on the evidence and data that are provided by external tests such as NAPLAN. While literacy and numeracy are core elements of the curriculum, other broader schooling outcomes can be strong indicators of school improvement and the quality of education.

External auditing processes of school achievement could be examined, such as the Ofsted inspection model in England and the use of the Teaching and Learning School Improvement Framework in Queensland, which is an external audit process developed by the Australian Council for Educational Research.

An independent external quality assurance authority, comprised of highly skilled and experienced teacher professionals, could provide schools, parents and the community with authoritative and sound assessments of school achievement. It could assess, on the basis of their professional expertise, the school's own evaluation against the National School Improvement Framework, identify areas of high achievement, and make recommendations on areas for any further work. This approach could be particularly beneficial in assisting underachieving schools to drive improved outcomes.

5.1.9 Conclusion

There is universal agreement among governments, teacher unions, principal associations, parent bodies, schooling systems and sector organisations on the need for school improvement and educational reform in Australia.

All Australian governments and schooling sectors have demonstrated a willingness and ability to work together through the national schooling reform agenda. This agenda has provided a solid foundation for reform and has started to drive improvements in Australia's schooling system. The ability to build on and strengthen these reforms through continued collaborative partnerships between governments and the non-government school sector will be key to the success of the funding reform recommended in this report.

Additional resources are required to achieve sustained improvements and move Australia to a high-performing and high-equity schooling system. These resources must be targeted at those school-based and classroom-based teaching and learning strategies which are critical to success.

The panel understands the challenges for governments across Australia in implementing its recommendations. The new funding arrangements it recommends will—year by year—steadily make real the shared aspirations for Australian schooling, and for the cultural richness, competitiveness and prosperity of the nation.

Australia and its children, now and in the future, deserve nothing less.

Appendices

Appendix A – Terms of reference for the Review of Funding for Schooling

The Review of Funding for Schooling will report to the Minister with responsibility for school education.

Purpose

The review will provide recommendations to the Minister with responsibility for school education on the future funding arrangements for schooling in Australia for the period beyond 2013.

The review's recommendations will be directed towards achieving a funding system for the period beyond 2013 which is transparent, fair, financially sustainable and effective in promoting excellent educational outcomes for all Australian students.

In making its recommendations, the review should consider the following issues:

Supporting educational outcomes

1. The role of funding arrangements in supporting improved educational outcomes, including:
 - a) links between school resourcing and educational outcomes; and
 - b) funding allocation mechanisms that address current barriers to educational achievement such as English language proficiency, Indigeneity, location, disability and special needs, and other disadvantaged groups such as low socioeconomic areas and other concentrations of disadvantage.
2. The roles of families, parents, communities and other institutions in providing or supporting educational partnerships with schools.

Allocation of funding

3. The roles of the Australian and state and territory governments in providing funding for schooling.
4. The baseline level and allocation of funding for schools, including:
 - a) costs of ensuring all students have access to a world-class education;
 - b) factors influencing growth in costs and whether current indexation arrangements are appropriate;
 - c) supply and demand considerations including the likely growth and distribution of demand and student need, based on current student enrolment trends and projections;
 - d) cost drivers of school funding, including teaching, capital, technology and other costs of schooling;
 - e) place of voluntary and private contributions and other income sources in school funding arrangements for government and non-government schools; and
 - f) role of government funding in providing parents with choice among diverse schools.

Funding mechanisms

5. The most effective means of distributing funding for schooling, including:
 - a) the different funding models used in states and territories and relevant overseas examples, especially in high-performing school systems, and how these may link to outcomes in their respective education systems;
 - b) the best funding mechanism(s) for delivering optimal educational outcomes, financial efficiency and sustainability, including whether a basic entitlement for every student is required and how this could be defined and determined;
 - c) ways to increase the simplicity, transparency and effectiveness of school funding arrangements, including the forms of school- and system-level autonomy within those arrangements that best support improved educational outcomes; and
 - d) the transitional assistance that should be offered to schools in making the transition to any new system.

Accountability and regulation

6. What forms of accountability, transparency and regulation are necessary to promote high standards of delivery and probity among schools receiving public funding, and the data required to monitor and assess these standards of delivery and educational outcomes.

Appendix B – Review process and consultation

On 15 April 2010, the former Minister for Education, the Hon Julia Gillard MP, announced that a comprehensive review of funding arrangements for schooling would commence in 2010 and conclude in 2011. The purpose of the review was to provide recommendations directed towards achieving a funding system for the period beyond 2013 that would be transparent, fair, financially sustainable and effective in promoting excellent educational outcomes for all Australian students.

On 30 April 2010, the Australian Government released the *Review of Funding for Schooling Discussion Paper* and *Draft Terms of Reference for the Review* for public comment.

On 9 July 2010, the Australian Government released the final terms of reference for the review, following stakeholder submissions and feedback on the draft terms of reference. The terms of reference were updated in November 2010 to reflect a change in ministerial arrangements as well as the extension of current funding arrangements for non-government schools until 2013. The final terms of reference for the review are provided at Appendix A.

The review was led by an expert panel Chaired by **David Gonski AC**, Chancellor of the University of New South Wales and Chairman of a number of not-for-profit and for-profit organisations, including Investec Bank Australia, ASX Limited and Coca Cola Amatil Limited.

The other members of the panel were:

Ken Boston AO, the former Chief Executive of the former Qualifications and Curriculum Authority, England, and the former Director-General of the Department of Education and Training, New South Wales.

Kathryn Greiner AO, Chair of Australian Hearing and Biotech Capital, Director of the Bell Shakespeare Company and former Deputy Chancellor at Bond University.

Carmen Lawrence, Director of the Centre for the Study of Social Change, School of Psychology, University of Western Australia and former Federal Minister and Premier of Western Australia.

Bill Scates AO, Chancellor of Swinburne University of Technology, Chairman of the Port of Melbourne Corporation, Board Member of the Veolia Australia Advisory Board and Panel Member of the Protecting Victoria's Vulnerable Children Inquiry.

Peter Tannock AM, Vice-Chancellor, University of Notre Dame Australia and former Chairman, National Catholic Education Commission of Australia.

In addition, Terrey Arcus AM, Director of Port Jackson Partners Limited, provided strategic advice to the panel.

Secretariat

A secretariat was established with the Department of Education, Employment and Workplace Relations, to support the review process. The secretariat comprised:

Louise Hanlon	Head of secretariat
Sarah Barron	Director
Darren Gaunt	Director
Cathie Maguire	Director
Anona Taylor	Director
Paul White	Director

Haisam Askari	Assistant Director
Emily Caswell	Assistant Director
Jenny Christmass	Assistant Director
Amanda Franzi	Assistant Director
Mark Lang	Assistant Director
Liona May	Assistant Director
Fiona Ngai	Project Officer
Kacey Lam	Administrative Officer
Catriona Shaw	Administrative Officer
Kylie Allan	Executive Assistant

Former secretariat staff

Craig Robertson	Group Manager, DEEWR (until June 2011)
Madonna Morton	Head of secretariat (until April 2011)
Karen Sandercock	Director (until December 2010)
Shona Falconer	Assistant Director (until June 2011)
Julian Russell	Assistant Director (until January 2011)
Claudia Iskra	Project Officer (until April 2011)
Anne Perusco	Project Officer (until November 2010)

Consultation process

The panel undertook a comprehensive public consultation process in order to gain a contemporary understanding of the issues affecting school education in Australia. During the second half of 2010, members of the panel conducted a listening tour, meeting with 71 key education groups across Australia. Details of participants are provided at Appendix C.

As a result of this process, the panel published the *Review of Funding for Schooling: Emerging Issues Paper*, outlining the views that had been put to them during the listening tour and calling for public submissions on the issues raised. A total of 1290 submissions were received in response to the paper. Further information on this submission process is provided at Appendix D.

The panel also conducted a series of school visits from February to May 2011, involving 39 schools and campuses across each state and territory and schooling sector. Further information about the school visits program is outlined at Appendix E.

The panel's early consultation work highlighted that there were a number of significant issues the review would need to address in developing a new funding system for schooling. Based on these issues, the panel identified a number of highly complex areas that required further analysis and investigation.

On 31 August 2011, the panel released the *Review of Funding for Schooling: Paper on Commissioned Research*, which accompanied the public release of the four research reports that had been commissioned by the panel (see below). Comments on the research were invited through a final public submission process conducted from 31 August 2011 to 30 September 2011. A total of 118 submissions were received in response to the paper. Further information on this submission process is at Appendix F.

In addition to the two formal submission processes, the panel received thousands of submissions and items of correspondence from interested members of the public, including responses generated as a result of campaigns relating to the review. The total number of submissions received is provided at Table 23. All submissions where authors gave permission to publish were published on the review’s website. A list of public submissions is provided at Appendix G.

Table 23: Number of submissions received by the review panel

	Submissions received	Submissions published
Terms of reference	44	27
Emerging Issues Paper	1,290	537
Commissioned research	118	87
General	158	63
Campaign	5,747	1,990

Commissioned research

In 2010, a comprehensive program of research was launched to investigate these areas and to support the panel’s deliberations. The review’s program of research included four commissioned research projects, analysis of other research undertaken both in Australia and internationally, and other types of evidence presented to the panel.

The panel commissioned the following research projects:

- **Assessment of current process for targeting of schools funding to disadvantaged students**, by the Australian Council for Educational Research.
- **Assessing existing funding models for schooling in Australia**, by Deloitte Access Economics.
- **Feasibility of a national schooling recurrent resource standard**, by The Allen Consulting Group.
- **Schooling challenges and opportunities**, by a consortium led by The Nous Group which includes the Melbourne Graduate School of Education at The University of Melbourne and the National Institute of Labour Studies at Flinders University.

Appendix C – Organisations consulted during the 2010 listening tour

Stakeholder	Date of meeting
ACT Council of Parents and Citizens Associations	11 August 2010
Adventist Schools Australia	8 July 2010
Association of Heads of Independent Schools of Australia	11 August 2010
Association of Independent Schools of New South Wales	9 July 2010
Association of Independent Schools of South Australia	29 July 2010
Association of Independent Schools of the Australian Capital Territory	11 August 2010
Association of Independent Schools of the Northern Territory	21 July 2010
Association of Independent Schools of Western Australia	19 July 2010
Australian Anglican Schools Network	19 July 2010
Australian Association of Christian Schools	9 July 2010
Australian Association of Special Education	8 July 2010
Australian College of Educators	23 November 2010
Australian Council of Jewish Schools	8 July 2010
Australian Council of State School Organisations	14 July 2010
Australian Education Union	8 July 2010
Australian Education Union, Australian Capital Territory Branch	11 August 2010
Australian Education Union, Northern Territory Branch	21 July 2010
Australian Education Union, South Australian Branch	29 July 2010
Australian Education Union, Tasmanian Branch	6 July 2010
Australian Education Union, Victorian Branch	8 July 2010
Australian Parents Council	6 July 2010
Australian Primary Principals Association	28 July 2010
Australian Secondary Principals Association	8 July 2010
Australian Special Education Principals' Association	19 July 2010
Catholic Education Commission, Australian Capital Territory	11 August 2010
Catholic Education Commission, New South Wales	9 July 2010
Catholic Education Commission of Victoria	8 July 2010
Catholic Education Commission of Western Australia	19 July 2010
Catholic Education Office, Northern Territory	21 July 2010
Catholic Education South Australia	29 July 2010
Catholic Secondary Principals Australia	14 July 2010
Children with Disability Australia	15 December 2010
Christian Education Ministries	16 July 2010
Christian Schools Australia	9 July 2010
Department of Education, Tasmania	6 July 2010
Department of Education, Western Australia	19 July 2010
Department of Education and Children's Services, South Australia	28 July 2010
Department of Education and Early Childhood Development, Victoria	8 July 2010

Stakeholder	Date of meeting
Department of Education and Training, Australian Capital Territory	14 July 2010
Department of Education and Communities, ⁹ New South Wales	27 August 2010
Department of Education and Training, Northern Territory	21 July 2010
Department of Education and Training, Queensland	16 July 2010
Department of Education Services, Western Australia	19 July 2010
Federation of Parents and Citizens' Associations of New South Wales	9 July 2010
Independent Education Union of Australia	14 July 2010
Independent Schools Council of Australia	14 July 2010
Independent Schools Queensland	16 July 2010
Independent Schools Tasmania	6 July 2010
Independent Schools Victoria	8 July 2010
Lutheran Education Australia	28 July 2010
National Aboriginal and Torres Strait Islander Principals Association	9 August 2010
National Catholic Education Commission	14 July 2010
National Catholic Education Commission Parent Committee	9 July 2010
National Independent Special Schools Association	9 August 2010
National People with Disabilities and Carer Council	15 December 2010
New South Wales Teachers Federation	9 July 2010
Northern Territory Council of Government School Organisations	21 July 2010
Northern Territory Indigenous Education Council	21 July 2010
Parents Victoria	8 July 2010
Principals Australia	29 July 2010
Queensland Catholic Education Commission	16 July 2010
Queensland Council of Parents and Citizens' Associations	9 August 2010
Queensland Teachers' Union	16 July 2010
South Australian Association of School Parents' Clubs	29 July 2010
State School Teachers' Union of Western Australia	19 July 2010
Stronger Smarter Institute, Queensland University of Technology	16 July 2010
Tasmanian Catholic Education Commission	6 July 2010
Tasmanian State School Parents and Friends	6 July 2010
Torres Strait Islanders Regional Education Council	16 July 2010
Victorian Council of School Organisations	8 July 2010
Western Australian Council of State School Organisations	19 July 2010

⁹ Department of Education and Training at time of consultation.

Appendix D – Emerging Issues Paper submissions

On 16 December 2010, the panel released the *Review of Funding for Schooling: Emerging Issues Paper*, accompanied by a submission process which closed on 31 March 2011. The purpose of this process was to seek further input from the community on seven key themes outlined in the paper:

- equity of educational outcomes
- recurrent funding
- capital funding
- targeted and needs-based funding
- support for students with special needs and students with disability
- governance and leadership
- community and family engagement.

The Emerging Issues Paper elicited 1290 submissions from a broad range of individuals and organisations, including expert researchers, associations and peak bodies from education, business and industry groups, the community sector, schools, P&C associations, and parents and community members. Across the seven key themes, submissions confirmed there were areas of consensus, as well as varying views and opinions on some issues. A high-level summary of the views presented to the panel on each of the seven key themes is provided below.

Overall, submissions suggested general support for change in current funding arrangements on the basis of better supporting equity in educational outcomes, the need for consistent funding for all students and improved targeted funding for disadvantaged students, particularly support for students with special needs and students with disability.

Equity of educational outcomes

There was broad support for the panel's approach to its considerations of equity for the review. Some submissions suggested that it needed to be refocused on equity of educational opportunity and linked to factors such as enhancing social mobility and participation.

Other submissions argued that the focus on equity should be about guaranteeing a high-quality education to all students. To this end, submissions noted that the role of schooling is to provide academic and social foundations for success in life. An alternative view was that a fair and equitable approach to funding, particularly for supporting disadvantaged students, means providing a similar level of government support for all students, irrespective of their background or financial situation.

Recurrent funding

Current funding arrangements were the most frequently addressed topic in submissions. There was strong support for an increase in overall funding for the school education sector, particularly the levels of recurrent funding for educationally disadvantaged students.

Some submissions were critical of the SES funding arrangements and the role of AGSRC in funding for schools as they were seen to deliver a funding advantage in some instances and were ineffective in redressing educational inequities.

Some organisations agreed with the underlying rationale behind the SES funding model, while others suggested that it was not an adequate measure of need and that other factors needed to be considered, such as resource availability. Some submissions advocated that the Funding Maintained

arrangements were not consistent with the overall application of the SES funding model. Those submissions supportive of Funding Maintained arrangements generally also advocated for funding to be retained in real terms following the outcome of the review.

In terms of AGSRC as an index, there was generally more support for its continued use as a measure to reflect increases in both the cost and quality of educational resources. While there was universal acknowledgment that there needs to be some mechanism that reflects changes in expenditure in schooling, most submissions did not view AGSRC as the best platform. While there was some support for retaining AGSRC, some submissions also outlined views about its limitations and called for adjustments to its administration. There was some support for the actual costs in government schools to be used as the basis for any future indexation arrangement as opposed to the use of an unrelated general measure of price increases. The purpose of AGSRC as a benchmark of per student amounts was also discussed in submissions. Several submissions noted issues around the exclusion of some costs in its calculation and the time lag between cost increases and the associated application. Some submissions expressed the view that AGSRC is overly complex and urged serious reconsideration of its continued use as a funding benchmark.

There was a high level of agreement for school funding to be comprised of a base grant with an additional needs-based component, but there were differing positions as to what factors should be used to determine such a base. Overall, there was general agreement that students with high needs would require additional funding to supplement any base funding amount. A range of views were expressed in submissions about the extent to which there should be a minimum level of public funding for all non-government schools.

Some submissions supported funding certainty through legislated arrangements; however, varying positions were expressed about the term of the funding arrangements.

Capital funding

There was general agreement that significant additional capital investment is required to address underinvestment in the upgrade and maintenance of existing school buildings and to adequately support world-class learning facilities, particularly for government schools and non-government schools serving disadvantaged communities. The injection of additional capital funding through the Building the Education Revolution program into primary schools was acknowledged in submissions but it was frequently noted that it was only a one-off measure.

Many submissions outlined a range of factors that impact on the ability of schools and education authorities to maintain and upgrade existing infrastructure and accommodate the expected growth in student numbers, for example, construction, maintenance and compliance costs. Several submissions called for a more appropriate indexation arrangement that reflects the total costs involved in establishing new schools as well as developing and maintaining existing schools. Some submissions commented that some schools have limited capacity to raise additional funds to meet their infrastructure needs. The issue of capital funding arrangements to support the establishment of new schools was widely raised in submissions as an area that requires innovative and collaborative approaches.

There was a range of suggestions put forward regarding the most appropriate way to fund expenditure on major works, minor works and maintenance of new and existing schools. While some considered there was merit in many aspects of the current arrangements, there was also some support for better long-term planning around the establishment of both new school facilities and maintenance of current school facilities. Some submissions also considered there was merit in better long-term management and use of school assets, for example, access to school facilities outside of school hours

for community use, and planning to include consideration of how school assets can be converted to alternative uses over time to provide long-term value to the community.

Targeted and needs-based funding

There was general agreement that any new funding model should include a targeted needs-based funding component in addition to a base recurrent funding component. The majority of submissions agreed with the focus on the five major sources of disadvantage outlined in the Emerging Issues Paper, namely lack of English language proficiency, Indigeneity, remoteness, disability and socioeconomic background.

Some submissions provided evidence that some students experienced multiple or compound disadvantage and indicated strong support for any new funding arrangements to address this particular impact as well as the impact of concentrations of disadvantaged students in particular school communities. Some submissions noted that some government schools are becoming increasingly characterised by high numbers of disadvantaged students. Some submissions also noted that not all disadvantaged students require similar levels of additional need or support.

Some submissions called for certainty in relation to needs-based funding, noting that short-term arrangements do not provide schools with the certainty or sustainability to address entrenched disadvantage.

Various options were put forward to meet the higher costs of educating students presenting with particular disadvantages; however, there were mixed views on the criteria that could be used to assess student need, and the accompanying funding arrangements that would best support educationally disadvantaged students.

Some submissions recognised the benefits of the Australian Government adopting an outcomes-based approach to funding disadvantage, similar to National Partnership arrangements in terms of providing the states and territories flexibility in the distribution of funds within each jurisdiction. However, the National Partnership model was not supported by all parties, with some giving their preference for a direct funding relationship with the Australian Government, or a longer term funding arrangement that would provide a higher degree of certainty and continuity.

Support for students with special needs and students with disability

Submissions were generally in agreement about the need for increased funding to support students with disability and students with special learning needs, and highlighted the legal obligations of schools to accommodate students with disability, inclusivity practices, the increasing numbers of students in these categories, and the high costs and complexity involved in providing equipment, training, teaching and other appropriate specialist staff.

There was strong support for the work underway to develop a nationally consistent definition for students with disability and for funding arrangements that provide similar levels of support for these students and families regardless of sector.

Some submissions supported funding for students with special needs and students with disability based on individual student need, with the funds provided flexibly to schools or school authorities. Portable funding models, such as individual voucher arrangements, were generally not supported.

Governance and leadership

There was support for a greater degree of school-level autonomy, conditional on factors such as: funding is enhanced and a clear framework for autonomy is established; a national curriculum and

standards are in place for teaching; leadership development opportunities and relevant support are provided; and school and system accountability are improved. Various submissions were not supportive of a decentralised, more autonomous approach as it increased pressure on principals and staff.

Community and family engagement

Many submissions emphasised the importance of education as a joint venture between schools, parents, carers and families, and the broader community. These submissions were generally supportive of funding arrangements that would realise greater community and family engagement in schools. Submissions noted the emphasis to date on in-school factors influencing student outcomes, and suggested that future funding arrangements would need to support integrated and sustained approaches to parental engagement to improve outcomes for disadvantaged students. Submissions also supported better use of school facilities by sharing facilities outside of school hours as a means of engendering broader community engagement, particularly where facilities had been established with some level of public funding.

Some submissions commented on the need to develop philanthropic giving in the Australian schooling context, particularly for government schools, and called for the removal of impediments to securing additional funding from private sources. These submissions noted the need for arrangements to support philanthropic donations by private individuals, charitable foundations or businesses. Other submissions expressed the view that education funding is the responsibility of government and opposed any greater reliance on business or commercial contributions, noting that not all communities have the same capacity to support their local schools.

Other supplementary comments

Many submissions canvassed a range of other issues relevant to the organisation and delivery of schooling in Australia such as pastoral care, the integration of other services relating to the health and wellbeing of students, public accountability, greater investment in early childhood education and early intervention, support for parental choice, and the respective roles of the Australian Government and state or territory governments.

Many submissions also outlined alternative approaches to funding schools, including the establishment of an independent national agency to oversee school funding arrangements.

Appendix E – Panel school visits program

From February to May 2011, panel members visited a number of schools to discuss funding issues experienced by principals, teachers and school communities in catering for their students, and to observe the effect of the current funding environment on a range of schools. Panel members selected schools for the visits that represented a range of school settings. Schools visited included those in government and non-government sectors, regional and remote areas, and those with high enrolments of Indigenous students, students with a LBOTE, and students with special needs and students with disability.

A total of 39 schools and campuses were visited by panel members, including 14 government schools, nine Catholic systemic schools and 16 independent schools across each state and territory of Australia (see Tables 24 to 31).

The format of the visits was not prescribed and principals were given scope to arrange the visits as they chose. The visits generally included a presentation by principals or teachers on their school and the funding issues they faced, followed by a discussion of issues relevant to the school's circumstances. Panel members were also often invited to tour school facilities and meet staff and students. The discussions held in these sessions helped to inform the views of the panel.

Table 24: Schools visited by panel members in New South Wales

Sector	Name of school
Government	Plumpton Public School, Plumpton
	Villawood North Public School, Fairfield East
Independent	Al Amanah College, Bankstown
	Giant Steps, Gladesville
	Mater Dei Special School, Camden
	Moriah College, Bondi Junction
	Penrith Christian School, Orchard Hills
	Santa Sabina College, Strathfield
	SCEGGS, Darlinghurst
	St Andrew's Cathedral School, Sydney
	St Lucy's School, Wahroonga
Catholic	Holy Spirit College, Lakemba
	Sacred Heart School, Villawood

Table 25: Schools visited by panel members in Victoria

Sector	Name of school
Government	Bendigo South East Secondary College, Bendigo
	Glengala/Sunshine West Primary School, Sunshine
	Kalianna Special School, Bendigo
Independent	Geelong Grammar School, Geelong
	Geelong Grammar School, Timbertop Campus
	Girton Grammar School, Bendigo
	Ilim College of Australia, Broadmeadows
	Mansfield Autistic Centre, Mansfield
Catholic	Caroline Chisholm Catholic College, Braybrook
	Catholic College, Bendigo

Table 26: Schools visited by panel members in Queensland

Sector	Name of school
Government	Innisfail State School, Innisfail
Catholic	Mount St Bernard College, Herberton

Table 27: Schools visited by panel members in South Australia

Sector	Name of school
Government	Adelaide High School, Adelaide
Catholic	Mount Carmel College, Rosewater

Table 28: Schools visited by panel members in Western Australia

Sector	Name of school
Government	Ashdale Primary School, Darch
	Roseworth Primary School, Girrawheen
	Shenton College, Shenton Park
Independent	Living Waters Lutheran College, Warnbro
Catholic	Holy Cross College, Ellenbrook
	Majella Catholic Primary School, Balga

Table 29: Schools visited by panel members in Tasmania

Sector	Name of school
Government	Launceston College, Launceston
Catholic	St James Catholic College, Cygnet

Table 30: Schools visited by panel members in the Northern Territory

Sector	Name of school
Government	Bradshaw Primary School, Alice Springs
Independent	Yipirinya School, Alice Springs

Table 31: Schools visited by panel members in the Australian Capital Territory

Sector	Name of school
Government	Belconnen High School Autism/Asperger's Syndrome Program, Hawker
	Narrabundah College, Narrabundah

Appendix F – Paper on Commissioned Research submissions

On 31 August 2011, the panel released the *Review of Funding for Schooling: Paper on Commissioned Research*, which accompanied the four research reports that had been commissioned by the panel, and invited further public comment on the research. This submission process closed on 30 September 2011.

A total of 118 submissions were received in response to the paper from government and non-government education authorities, peak and supporting bodies, key Australian educationalists, schools, parents, teachers as well as members of the broader community.

In the submissions provided, there was a general view that the four reports had collectively consolidated important information about Australian school education and highlighted the complexity of the issues before the panel. Many submissions indicated that the findings made a strong case for fundamental change in the way schooling is funded by all levels of government to lift performance of all Australian schools, as well as meet the demands of a rapidly changing social and technological environment. A small number of submissions commented that only minimal change to current funding arrangements was required.

Some submissions expressed concerns about the research findings, including the underpinning methodologies and assumptions, the standard of the analysis and a lack of empirical support. It was suggested by some that the research reports may have reflected a lack of understanding of some school practices. A lack of a substantial focus in relation to some issues was also raised in some submissions.

Feasibility of a schooling resource standard

Responses to the potential use of a schooling resource standard were mixed but overall there was general support for further consideration of its potential. Some submissions explicitly supported the notion of a base funding amount for all students, with additional support attached to students with greater educational needs. Other submissions were qualified and indicated in their comments that further detailed consideration of the methodology and calculations of the schooling resource standard is required as well as information on the impact at the school and system level.

Concern was expressed about the extent to which the use of a standard would deliver funding equitably and efficiently, as well as how it would recognise circumstances in each state and territory and be adaptable to changing circumstances over time.

Submissions expressed considerable support for the need for improved data quality and national or comparable definitions to support a schooling resource standard, noting limitations with NAPLAN data and the current quality of data on student background. Submissions suggested the need for work to generate a transparent and stable methodology for determining socioeconomic status. Of particular concern was the use of the Index of Community Socio-Educational Advantage as a proxy for socioeconomic status. There was also discussion about the use of financial data items and what should be included in the methodology.

Submissions discussed the need for the reference schools to be representative of the broader school population. In terms of the level of the student outcome benchmark, some suggested that the level was not aspirational enough. Some also suggested that the use of professional judgment would undermine the rigour of the model.

There was overall support for the characteristics that had been identified through the research findings as key areas of need within the Australian student population. Many submissions also canvassed the need for the model to address concentrations of disadvantage. The appropriateness of loadings being individual or school-based, the potential for unintended consequences, and an assumption that primary schools should be funded at a lower rate than secondary schools were all raised as issues in some submissions.

Most submissions took the view that any approach to future school indexation arrangements should be based on real costs of schooling, not on generic measures. It was also argued that indexation must include both annual price and quality expenditure increases in government schools.

Concern was expressed that the research findings did not adequately address the issues of the share of costs between the Australian Government and the states and territories and the transition to any new future funding arrangements. Some questioned whether the new funding arrangements could be implemented in two years as suggested, given the time needed to resolve data issues and validate a new approach.

Greater support for disadvantaged students

A major theme of submissions was that any funding model needs to effectively recognise demographic challenges and the different levels of need within the Australian student population. Most submissions acknowledged that addressing disadvantage is complex.

Some submissions noted their own analysis of data in relation to particular types of disadvantage and the impact on schools of the growing evidence base around the educational needs of schools with concentrations of disadvantage. Some submissions noted that some government schools are becoming increasingly characterised by high numbers of disadvantaged students.

There were mixed views regarding the relationship between school resourcing and improving educational outcomes. Multiple and overlapping sources of funding, particularly targeted funding approaches, were viewed as undermining the principles of simplicity, transparency and efficiency. Views were also mixed on whether broad-based funding such as National Partnerships or targeted programs were more appropriate to address disadvantage.

Many submissions commented that they were unable to discern a clear model for funding students with disabilities in the research. There was a general acknowledgment of the difficulties due to a lack of data, consistent national definitions and assessment tools. The majority of submissions indicated that resolution of these matters should not hold up the development of a more effective school funding model.

Many submissions supported the need for additional investment for disadvantaged students and that funding should be the same regardless of school or sector. It was also noted that levels of funding were not the complete solution and that consideration must also be given to how the resources are directed to address disadvantage.

An effective funding model

The majority of submissions were supportive of the features outlined in the research findings that were considered integral to funding outcomes, namely that funding models should be equitable, effective, adequate, efficient and incentivised.

Some submissions emphasised the principles of transparency and effectiveness, arguing that an appropriate understanding of schools' funding is part of increasing community confidence that the

relative level of funding for schools is appropriate and based on evidence. Funding models promoting the principles of choice for parents and certainty in funding were also considered important. The principle of fairness, particularly in relation to the funding support for students with special needs and students with disability, was also emphasised.

The majority of submissions advocated that the current roles of the Australian Government and state and territory governments in the management of schools and the provision of funding should be maintained. The principle of subsidiarity in relation to the allocation of funding was also supported, as were ongoing system-level approaches. Many submissions agreed that any funding model needs to be clearly linked to well-defined public policy objectives with an appropriate delineation of roles and responsibilities.

Transitional fairness was also put forward as a key principle for school funding reform with no student, school, community or sector disadvantaged by any changes to funding arrangements.

Future priorities and directions

The majority of submissions commented on the research findings concerning possible reforms to drive increased performance and equity across the schooling system.

Most submissions concurred with the six levers put forward to improve the Australian schooling system, particularly improving the quality of teachers and teaching, and ensuring that high-quality teachers are available to schools with greatest need.

Submissions also noted the research about the impact of school resourcing on student outcomes, noting that resourcing is a critical enabler which can be used to support important changes within schools. Other submissions highlighted that the key to improving Australia's education system is not doing a lot of new things, but rather applying what works in a comprehensive, integrated and sustainable manner.

Some submissions noted the findings that improvements in retention and participation can considerably improve performance. More inclusive approaches that connect schools and services to support the needs of the most disadvantaged school communities were supported. The importance of parental and community engagement and strong school leadership to drive a positive and effective school culture was also acknowledged.

While early childhood is already undergoing significant reform, some submissions argued that there is a need to maintain this momentum and that consideration is needed on the level of investment in the early years of schooling.

Opinion differed in relation to school autonomy, with some submissions supporting enhanced school autonomy to lift educational outcomes, while others were more cautious in their support.

While the research reports noted widespread concern about the level and approach for investment in infrastructure, many submissions indicated that this is an area which needs innovative and collaborative funding approaches.

Appendix G – Public submissions

Public submissions received by the review are listed below under the submission category in alphabetical order. Submissions with multiple authors are listed under the name of the first author. All submissions where authors gave permission to do so were published in their submission category in alphabetical order on the review's website.

Appendix B includes a table with the total number of submissions received and the numbers publicly available. This included responses to external campaigns that were submitted to the review. Of the 5747 campaign submissions forwarded, 1990 were published on the review website. These have not been included in this appendix.

Draft terms of reference

ACT Council of Parents and Citizens Associations
Adventist Schools Australia
Association of Independent Schools of South Australia
Australian Association of Christian Schools and Christian Education National
Australian College of Educators
Australian Council for the Defence of Government Schools
Australian Education Union
Australian Parents Council
Australian Primary Principals Association
Australian Secondary Principals Association
Australian Special Education Principals' Association
Catholic Secondary Principals Australia
Christian Schools Australia
Council of Catholic School Parents New South Wales/Australian Capital Territory
Federation of Parents and Citizens' Associations of New South Wales
Foundation for Young Australians
Good Shepherd Youth and Family Service
Independent Education Union of Australia
Independent Schools Council of Australia
Independent Schools Queensland
Independent Schools Victoria
Lutheran Education Australia
National Catholic Education Commission
National Independent Special Schools Association
O'Brien, Terry
O'Carroll, Philip
Singleton Primary School, Western Australia

General submissions

Albany Primary School, Western Australia	Koorey, Amanda
Amnesty International	Lameroo Regional Community School, South Australia
Australian Indigenous Education Foundation	Mackenzie, Fiona
Australian Parents Council	Margaret River School Community Council, Western Australia
Bathurst, Beverley	McKeown, Gail
Baudinette, Fiona	Minack, Richard
Becker, Dan	National Australia Bank Education and Community Business
Belmay Primary School, Western Australia	Nigro, Lynette
Blue Gum Community School, Australian Capital Territory	New South Wales Secondary Principals' Council
Bridgetown High School, Western Australia	Oetjen, Tracey
Cassidy, Karen	Orren, Tom
Clark, Wendy	Port Broughton Area School Governing Council, South Australia
Cummins Area School, South Australia	Preston, Barbara
Curtis, Chris	Proctor, Helen
Davidson, Merrilyn	Quakers Hill High School Parents and Citizens' Association, New South Wales
Everitt, Val	Rose, Paul A
Farfalla, Enza	Schreier, Marisa
Gartland, Georgina	Scott, Kellie
Gazzola, Mary	Sharman, Michelle
Gilmore, Anne	Shiels, Catherine
Glenunga International High School, South Australia	Smith, Catherine
Goodman-Peck, Bindi	Smith, Melanie
Gordon, James William	Spraakman, Janice
Gould, Marie	Stitt, Alexander
Greenwell, Jill	Teese, Richard
Greenwell, John Henry	Vij, Linda
Hart, Bonnie	Waitara Public School Parents' and Citizens' Association
Huard, Paul	Waters, Marty
Hurley, Sharron	Wilson, Michael
Isolated Children's Parents' Association of Australia	Yugumbir State School, Queensland
Johnsen, Matthew	
Kingston Primary School Association, Tasmania	
Knight, Vanessa	

Submissions on the Emerging Issues Paper

Aberfeldie Primary School, Victoria	Australian Education Union
Aboriginal Independent Community Schools of Western Australia	Australian Education Union, Australian Capital Territory Branch
Accessible Arts	Australian Education Union, South Australian Branch
ACT Principals Association	Australian Education Union, Tasmanian Branch
Adventist Schools Australia	Australian Education Union, Victorian Branch
Agiasotis, Nisha	Australian Federation of Disability Organisations
Aitken College, Victoria	Australian Federation of Islamic Councils
Alessia, Kate	Australian Parents Council
Alexander, Karla	Australian Primary Principals Association
All Saints Primary School, Queensland	Australian Research Centre in Sex, Health and Society, La Trobe University
Alm, Margit	Australian Science and Mathematics School Governing Council
Amos, Annabel	Australian Secondary Principals Association
Anglican Schools Commission	Australian Special Education Principals' Association
Armstead, Susan	Australian Sports Commission
Aspinall, Ben	Australian Trade College North Brisbane, Queensland
Asquith Public School Parents and Citizens' Association	Australian Young, Pregnant and Parenting Network
Associated Christian Schools	Australian Youth Affairs Coalition
Association of Catholic Special Schools Services	Autism Association of Western Australia
Association of Heads of Independent Schools of Australia	Autism Spectrum Australia
Association of Independent Schools of New South Wales	Baker, Daphne
Association of Independent Schools of South Australia	Baker, Kellie
Association of Independent Schools of the Australian Capital Territory	Ballarat Christian College, Victoria
Association of Independent Schools of Western Australia	Barnier, Justina
Association of Special Education Administrators in Queensland	Barrenjoey High School, New South Wales
Athelstone Schools, South Australia	Bartholamaeus, Pam
Atwell, Kathy	Baulkham Hills North Public School, New South Wales
Auckland, Clare	Bazzano, Ivanna
Australasian Association for Progressive and Alternative Education	Beard, Peter James
Australian Anglican School Network	Beaumaris Primary School, Western Australia
Australian Association of Christian Schools	Beecher, Sue
Australian Association of Government School Administrators	Benson, Craig
Australian Association of Special Education	Berg, Michael
Australian Capital Territory Government	Berryman, Timothy
Australian College of Educators	Bezzina, Ellena
Australian Council for the Defence of Government Schools	Biala Special School, New South Wales
Australian Council of Jewish Schools	Big Picture Education Australia
Australian Council of State School Organisations	Bird, Natalie
Australian Dyslexia Trust	Blacker, Naomi
	Blair, Francis
	Blind Citizens Association

Submissions on the Emerging Issues Paper

Blomfield, Kelli	Catholic Primary Principals' Association of Western Australia
Boardman, Robyn	Cawsey, Christine
Body, Graham	Central Coast Parents and Citizens' Federation
Bondi Beach Public School, New South Wales	Central Schools of New South Wales Teachers Federation
Bonnici, Penny	Central Tilba Public School, New South Wales
Bonnor, Chris	Centre for Public Education
Box Hill High School, Victoria	Chamber of Commerce and Industry of Western Australia
Boyne, Ken	CHI.L.D Association, the Glenleighden School
Bracknell Primary School, Tasmania	Children by Choice Association
Brigidine College, Queensland	Children with Disability Australia
Brisbane Girls Grammar School, Queensland	Christian Education Ministries
Broadbent, Beverley	Christian Schools Australia
Brooks, Laura	Cleary, Julie
Brotherhood of St Laurence	Cleaver, Rebecca
Broughton, Jim	Coates, Joan
Brown, Mary	Collette, Sharyn
Brown, Rowanne	Collins, Kathryn
Browne, Kelly	Combe, Josephine
Buckingham, Jennifer	Community and Public Sector Union State Public Services Federation Group
Buckley Park College School, Victoria	Como Secondary College, Western Australia
Burnett Youth Learning Centre, Queensland	Companion House
Burrows, Chris	Conaghan, Lynise
Business Council of Australia	Condon, Kylie
Business-School Connections Roundtable	Conlon, Claire
Buzza, Jodie	Connors, Lyndsay and McMorrow, Jim
Byron Bay High School Parents and Citizens Association	Constable, Barbara-Anne
Cameron, Tracey	Constable, Kate
Camille, Kim	Cooke, Elizabeth
Campbell, Malcolm	Corinda State School, Queensland
Canberra College, Australian Capital Territory	Corry, Ngaire
Cannon, Jessica	Cosgrove, Andrew
Canny, Margaret	Council of Catholic School Parents New South Wales/Australian Capital Territory
Canterbury Girls High School Parents and Citizens' Association	Council of Educational Facility Planners International
Carleton, Jenny	Covill, Bronwyn
Carlingford Public School Parents and Citizens' Association	Crellin, Stan
Carrington, Jane	Crofskey, Deborah
Carter, Brook	Croydon Park Public School Parents and Citizens' Association
Cathedral College Queensland	Cupo, Elva
Catholic Education Office, Sydney	
Catholic Education Services of the Diocese of Cairns with Senator the Hon Jan McLucas	

Submissions on the Emerging Issues Paper

Cupples, Brooke	Filmer, Rhonda
Curtin Primary School Parents and Citizens' Association	Fincham, Robbie
Curtis, Chris	Foley, Bruce
Dalziel, Mary	Fraser Coast Anglican College, Queensland
Davidson, John	Fraser, Sandra
de Graaf, Kendal	Freeman Catholic College, New South Wales
de Rosnay, Marc	Furtado, Michael
Deafness Forum of Australia	Galloway, Sharon
Dell, Neralea	Gassmanis, Michelle
Di Giusto, Lorraine	Geelong College, Victoria
Diabetes Australia	Giant Steps
Dickson College, Australian Capital Territory	Gibbons, Rosalind
Diprose, Tracy	Gibson, Donald
Dodds, Geoffrey	Gifted and Talented Children's Association Western Australia
Doherty, Fiona	Gilson, Stephanie
Donnan, Sarah	Glen Huon Primary School, Tasmania
Douthwaite, Justine	Glenaeon Parents and Friends Association
Dow, Briony	Glenaeon Rudolf Steiner School, New South Wales
Dow, Dianne	Gold Creek School Board, Australian Capital Territory
Downlands College, Queensland	Good Counsel College, Queensland
Doyle, Kate	Good Shepherd Youth and Family Service
Dransfield, Genene	Goulburn Valley Grammar School, Victoria
Drummond, Mark	Gould, Marie
Duane, Paul	Grace Lutheran College, Queensland
Duncan, Anna	Graduate Women South Australia
Durant, Kylie	Grant, Garry
East Manjimup Primary School, Western Australia	Grant, Lindsay
Eckersley, Narelle	Grant, Nancy
Educational Transformations	Gray, Jane
Edwards, Karen	Green, Elizabeth
Eide, Leyla	Green, Mark
Eltham College of Education and Melbourne City School	Greger, Stevie
Emery, Carolyn	Griffin, Des
Ethnic Communities Council of Queensland	Grimmet, Carmel
Evans, Kylee	Groves Christian College, Queensland
Eveans, Chris	Groves, Alyson
Everingham, Douglas	Gunn, Annette
Fairhills High School Council, Victoria	Gwynneville Public School Parents and Citizens' Association
Federal Coalition – the Hon Christopher Pyne MP	Hall, Bryan
Federation of Parents and Citizens' Associations of New South Wales	Hammersley, Megan
Federation of Parents and Friends Associations in Catholic Schools Queensland	Hampton, Helen
Fennell, Brenda	Hare, Penny

Submissions on the Emerging Issues Paper

Hargreaves, Chesleigh	Kerin, Michael
Harms, Anton	Kidd, Heather
Hawkes, Tim	Killarney Heights High School Parents and Citizens' Association
Hedger, Kylie	Kingsford Smith School, Australian Capital Territory
Henry Parks Foundation	Kirby, the Hon Michael
Hewatt, Susi	Klafler, Douglas
High School for Coburg	Krause, Jane
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Hughes, Kay	Lutheran Education Australia
Hunt, Debbie	Lyneham Primary School Board, Australian Capital Territory
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Independent Schools Tasmania	Magree, Leanne
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Jarrett, Jenny	Marshall, Dawn
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Submissions on the Emerging Issues Paper

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Submissions on the Emerging Issues Paper

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Sacred Heart Primary School, Sandgate, Queensland	St Luke's Catholic Parish School, Queensland
Sacred Heart Primary School, Yeppoon, Queensland	St Margaret's Anglican Girls School, Queensland
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Schools Business Managers' Association of Queensland	St Patrick's College, Queensland
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Submissions on Paper on Commissioned Research

Access Innovation Media	Australian Labor Party Education and Youth Affairs Policy Committee, Victorian Branch
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Association of Heads of Independent Schools New South Wales/Australian Capital Territory Branch	Australian Secondary Principals Association
Association of Independent Schools of South Australia	Australian Special Education Principals' Association
Association of Special Education Administrators Queensland	Australian Youth Affairs Coalition
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Australian Council of Jewish Schools	Bonnor, Chris
Australian Council of State School Organisations	Bunbury Regional Governance Group
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Submissions on Paper on Commissioned Research

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Hines, Janet	Refugee Resettlement Advisory Council
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Independent Schools Council of Australia	Save Our Schools
Independent Schools Queensland	South Australian Department of Education and Children's Services
Independent Schools Victoria	South Western and South Central and Southern Regional Governance Groups
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Lutheran Education Australia	St Stephen's School, Western Australia
McCarry, G J	Stanton, Anne
McGhie, Beverley	Steiner Education Australia
Montessori Australia Foundation	Sydney Anglican Schools Corporation
Morgan, Ian	Taminmin College Council
Mount Evelyn Christian School, Victoria	The Smith Family
Mullane, Brigid	Thyer, James
National Catholic Education Commission	Victorian Government
National Disability Services	Western and Central Regional Governance Groups
National People with Disabilities and Carer Council	Western Australian Government
New South Wales Government	
New South Wales Parents' Council	

Appendix H – Schooling resource standard data and methodology

This appendix describes the data and methodology used for developing indicative estimates of the schooling resource standard per student amounts and loadings.

Data

The *My School* database has been the primary source of data used to estimate the schooling resource standard. The outcomes data used in the estimation process are the proportion of students assessed at different band levels for reading and numeracy based on the NAPLAN assessment scale for 2008 to 2010.

The financial data used in the estimation process are the net recurrent income per student (NRIPS) reported for all schools for 2009. Net recurrent income relates to the amount of income received by a school from the Australian Government, state and territory governments, fees, charges, parent contributions and other private sources that is available for expenditure relating to the ongoing operating costs of schools, such as teaching and non-teaching staff salaries.

Although there are currently some caveats on this data reflecting differences in treatment and collection across jurisdictions and sectors, it is sufficiently robust for the purposes of initial work. An independent accounting firm (Deloitte), which oversaw the development of the methodology for collecting and reporting this data, concluded that, except for certain comparability limitations, it provides a reasonable basis for the collection of materially comparable financial data by school on a national basis (ACARA 2010a).

While a number of aspects of the data collection can and should be improved over time, it is important to note that the amounts to apply in 2014 will be determined on data for later years. This will provide opportunities to improve the quality of the data before final schooling resource standard per student amounts and loadings are determined.

Primary and secondary per student amounts

The methodology for developing primary and secondary per student amounts involved four steps:

- **Step 1** – Specifying the student outcome benchmark and identifying reference schools.
- **Step 2** – Developing a statistical model to quantify the different factors that explain the variation in NRIPS among reference schools.
- **Step 3** – Setting the key characteristics of ‘base schools’, that is, those with no significant disadvantage that would attract per student amounts only and minimal if any loadings.
- **Step 4** – Estimating per student amounts for primary and secondary students on the basis of these settings using the model developed at Step 2.

Step 1 – Specifying the student outcome benchmark and identifying reference schools

This has been described in Section 4.2.3 of the report.

Step 2 – Developing a statistical model

Reference schools are not a homogenous group. They have different levels of disadvantage, sources and levels of funding and sizes and locations, all of which can affect a school’s NRIPS. Averaging reference school net recurrent income would therefore be too crude an approach and a statistical model is needed to estimate the primary and secondary student amounts that can control for these other influences.

This model quantifies the relationships between NRIPS and the host of other school and student characteristics that can affect school resourcing using available *My School* data. It includes a wide range of variables such as jurisdiction, sector, size, location, Indigeneity, disadvantaged LBOTE, socio-educational advantage and school type.

The model estimates the influence of these variables on NRIPS using regression analysis. This allows the independent effect on NRIPS of changes in the value of the different variables to be estimated. Different combinations of variables have also been analysed in the model as there are known interactions between them (such as location and Indigeneity and sector and the percentage of income from private sources). The model also seeks to remove the estimated existing additional costs of supporting students with disability as these resources, plus additional funding, would be allocated through loadings on top of the per student amount.

Step 3 – Setting base school characteristics

To obtain estimates of per student amounts holding everything else equal, a number of assumptions need to be made about the characteristics of the 'base' school, that is, one with no significant disadvantage that would attract per student amounts only and minimal if any loadings. The main variables that need to be set in this way are:

- School size as measured by student enrolments – on average primary schools are much smaller than secondary and combined schools and the base school for the primary and secondary amounts needs to reflect this difference.
- The proportion of students from disadvantaged backgrounds (Indigenous, disadvantaged LBOTE or low socio-educational advantage) – as reference schools are selected on the basis of meeting an outcomes benchmark for literacy and numeracy, they have a lower-than-average representation of students from these groups. However, there are still some students with these characteristics in reference schools. As loadings are added subsequently for these factors, it is important that any remaining effect of disadvantage on resourcing is removed by setting these proportions to zero.
- The location of the school – as location loadings are to be added subsequently, the base school is assumed to be in a metropolitan area.
- School type (primary, secondary or combined) – the primary per student amount is estimated based on primary reference schools and primary students in combined reference schools. The secondary per student amount is based on secondary reference schools and secondary students in combined reference schools.
- The percentage of NRIPS sourced from private income – there are significant differences within the reference school group in the proportion of NRIPS that is publicly and privately funded. In the government sector higher NRIPS is associated with smaller and more remote schools with higher levels of disadvantage, which is controlled for in other settings. In the non-government sector, especially among secondary and combined schools, higher NRIPS is associated with higher private contributions, which have the potential to skew the estimated per student amounts.

Step 4 – Estimating per student amounts

Once the settings of the base schools are selected, these are then entered into the statistical model developed at Step 2, which produces estimates of the per student amounts for primary and secondary students. The model produces results for the 10th, 25th and 50th NRIPS percentiles of reference schools along with the mean. This gives an indication of the range of efficiency achieved by schools that are similarly effective.

Applying this methodology to the 2009 school financial data, the panel has arrived at indicative estimates for the primary and secondary per student amounts as set out in Table 19 in the body of this report.

These indicative estimates provide a starting point for further work which will involve the states and territories and the non-government sector. The steps required are set out in Section 4.2.7 of the report.

Loadings

The schooling resource standard also includes a series of loadings for student- and school-based sources of disadvantage. Issues considered by the panel additional to those outlined in Section 4.2.8 of the report were:

- the rationale for identifying factors for which loadings should be added to the per student amounts
- some aspects of their measurement
- data analysis relevant to the structure of loadings
- indicative ranges for the loadings.

Factors requiring loadings

The panel's rationale for proposing five loadings was as follows:

- School size and location – analysis of *My School* data by ACARA suggests that these are powerful influences on a school's NRIPS at present due to the economies of scale achievable in larger schools, the greater proportion of smaller schools in non-metropolitan areas and the additional costs faced in remote and very remote areas. There is also evidence that the performance of students in rural schools is significantly below that of students in city schools, even after accounting for other differences.
- Students with disability – education providers in all sectors are required by law to make reasonable educational adjustments for students with disability so that they can participate in schooling on the same basis as other students. While some students with disability do not require adjustments, others require can require extensive adjustments.
- Students from low socioeconomic backgrounds – PISA and other data show that students from low socioeconomic status families achieve lower literacy, mathematics and science scores on average. Low socioeconomic status students in Australia are achieving outcomes well below the OECD average.
- Students from Indigenous backgrounds – all Australian governments are committed to ambitious Closing the Gap targets in recognition of the fact that at present Indigenous students on average perform significantly worse than their non-Indigenous counterparts.
- Students with limited English language proficiency – limited proficiency is a major barrier to student learning and improvement and there is clear evidence that English proficiency has a significant impact on average NAPLAN results.

Some of these effects interact with one another, for example, there are overlaps in the effects of school size and remoteness and lower socioeconomic status. These effects need to be taken into account in the design of loadings so far as possible.

The panel also considered that it is not possible to provide an indicative estimate of loadings for students with disability at this time until work underway on nationally consistent data on student numbers and adjustment levels is completed.

Measurement issues

It is critical that school-level data to which loadings are applied are collected in a nationally consistent way and are robust and verifiable. This applies particularly to student characteristics. For the purposes of its own considerations, the panel has necessarily used available data for each of these. In particular:

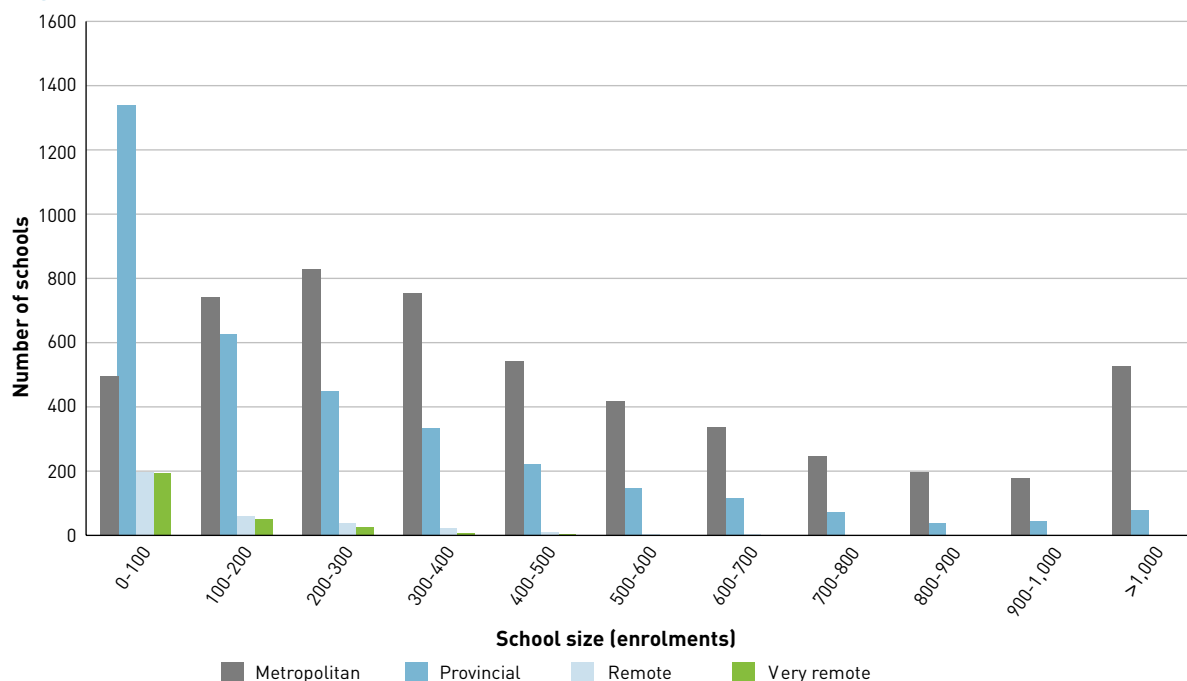
- Low socioeconomic status has been measured using students in the bottom two quarters of socio-educational advantage as a proxy. This is collected by ACARA for the *My School* website based on information about parental education and occupation derived from student enrolments or the census Collection Districts in which students reside. This is the only available data across all sectors and schools on this category at this time.
- Limited English language proficiency has been measured using disadvantaged LBOTE as a proxy, that is, students who are classified as having a LBOTE and whose parental education is Year 9 or below. While there are a number of ways of measuring English language proficiency, there is no nationally consistent definition at present.

Full implementation of the loadings in these categories and also students with disability will require further work to improve the accuracy and rigour of this data.

Structure of loadings

Recognising the additional costs of operating in remote and very remote areas, the panel concluded that there is a strong case for a range of loadings for all schools in these areas to reflect costs as well as school size. However, in metropolitan and provincial areas there is not the same case for a loading for size of school as this could encourage the establishment of unnecessarily small schools. Figure 56 shows that very small schools with fewer than 100 students are mainly located in provincial and metropolitan areas, but that most remote and very remote schools are in this size range.

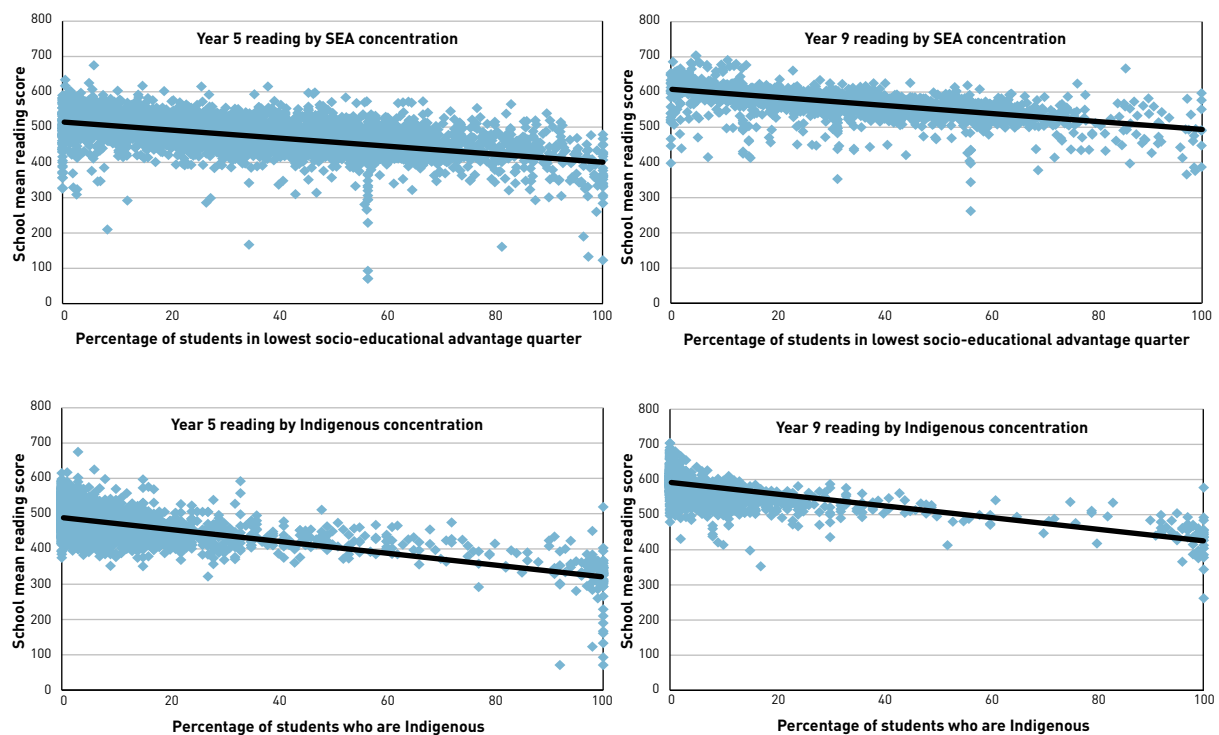
Figure 56: Schools by location and size, 2009



Source: ACARA dataset 2011.

In relation to low socioeconomic status and Indigenous student background, the panel's analysis in Chapter 3.2 led it to conclude that loadings should be structured to reflect concentration of disadvantage so that higher loadings are provided where disadvantage is more concentrated. Figure 57 shows that there is an association between concentration of low socioeconomic status and Indigenous students in schools and poorer school performance on reading in NAPLAN 2010 at Years 5 and 9. As discussed in Chapter 3.2, analysis of individual student data for MCEECDYA's Strategic Policy Working Group also confirms the effect of concentration on educational performance. In relation to Indigenous students, setting a higher level of loadings for schools where more than 75 per cent of students are Indigenous would complement the method used to identify focus schools under the recently endorsed MCEECDYA Aboriginal and Torres Strait Islander Education Action Plan 2010–2014 (MCEECDYA 2011a).

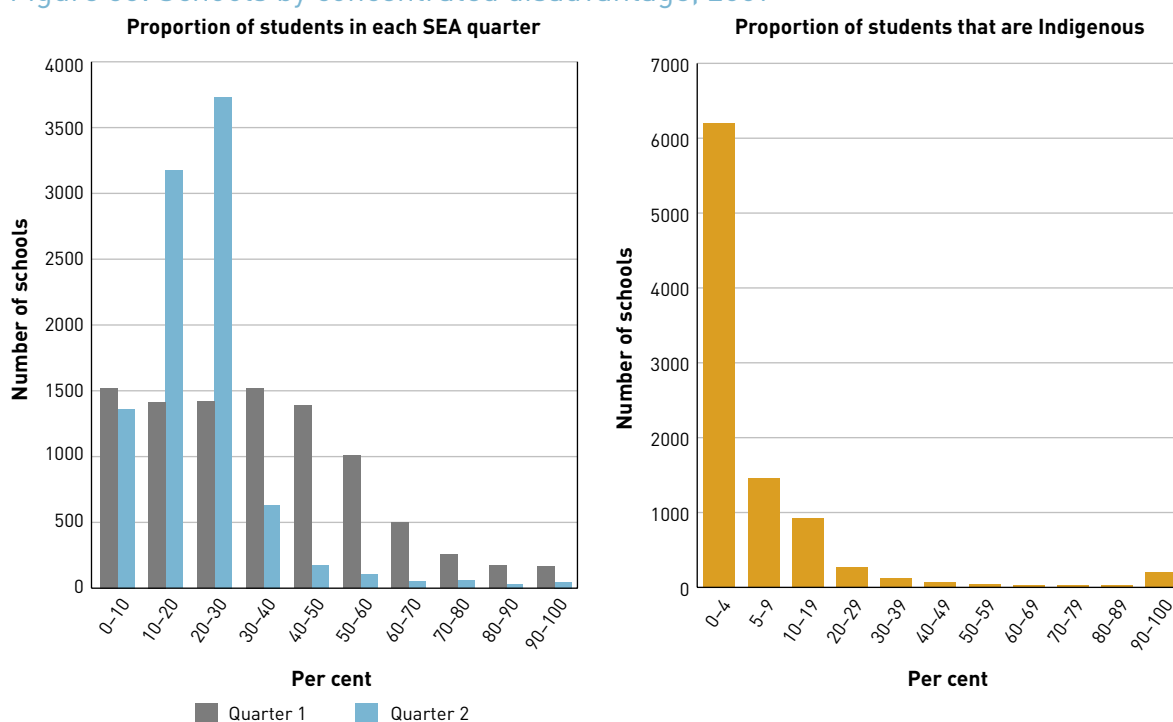
Figure 57: NAPLAN school reading scores by concentrated disadvantage, 2010



Source: ACARA dataset 2011.

The structure of loadings for low socioeconomic status and Indigeneity also needs to reflect the distribution of schools by concentration on these dimensions as this affects the cost of any resource allocation. Figure 58 shows that the vast majority of schools have less than 10 per cent of students who are Indigenous. In contrast, relatively equal numbers of schools have low socioeconomic status students up to 40 to 50 per cent from the lowest socio-educational advantage quarter.

Figure 58: Schools by concentrated disadvantage, 2009



Source: ACARA dataset 2011.

Indicative ranges

As with the per student resource standard amounts, it is not possible to propose any firm estimates of the loadings at this stage until more detailed work has been undertaken in collaboration with the states and territories and the non-government sector. For the purposes of its modelling, the panel worked with a range of possible estimates and structures for loadings as indicated in Table 20, which can provide a starting point for this further work. A number of considerations were taken into account in choosing these ranges and levels for the loadings.

In relation to school size and location, it was possible to quantify the existing additional resources attributable to schools by size and location from the statistical model developed by the Allen Consulting Group and described in Section 4.2.7 of the report, but using data for all schools rather than reference schools. However, this does not necessarily represent a desirable resource allocation given the issues flagged earlier in relation to small schools in metropolitan and provincial areas, and therefore the issue of loadings outside remote and very remote areas requires further consideration.

For Indigenous students, the panel's judgment was also informed by the Allen Consulting Group statistical model for all schools. This suggests that, at present, schools with a high concentration of Indigenous students attract additional resources of between 80 and 100 per cent holding other things constant. However, there may well be issues about the interaction between remoteness, low socioeconomic status and Indigeneity, which could affect this result and would need to be taken into account in setting loadings.

Using the Allen Consulting Group statistical model was not possible for the remaining loadings and indicative ranges for them have been based on other considerations.

For low socioeconomic status students these included that the starting point for the total value of the low socioeconomic status loading needs to be larger than the existing investment in this group from all sources, that is, through state government funding models, the Low Socioeconomic Status School Communities National Partnership, targeted programs for non-government schools and non-government system authority allocations. For example, participating schools in the Low Socioeconomic Status School Communities National Partnership are estimated to receive an additional \$1000 per student on average over the seven years of the agreement. While the panel welcomed the additional effort represented by this National Partnership and noted some early indications of its impact at school level, a serious commitment to reducing inequity in Australian schooling will require significant additional and ongoing resources to make a substantial impact.

A number of overseas examples of weightings used within school funding arrangements provide relevant context to setting an appropriate loading for Australia:

- In the Netherlands a low socioeconomic status loading is provided and varies from 30 to 120 per cent based on a measure of parental education and qualifications.
- In Alberta (Canada) a low socioeconomic status loading of 14 per cent applies based on a socioeconomic status measure including parental education, family status, home ownership and income.

For limited English language proficiency, a research report commissioned for the review found that, in government schools, estimated targeted funding for English as a second language students in 2009–10 was \$1852 per student, or approximately 17 per cent of average government school resourcing per student (ACER 2011). This may be an underestimate to the extent that the Australian Council for Educational Research report focused on targeted programs and did not fully capture elements of general resourcing that also support English as a second language learners. That report also found (albeit on limited evidence) that English as a second language programs are well established and generally believed to be effective, albeit with some issues of unmet demand.

Overseas a number of countries and systems use loadings to provide additional resourcing to overcome language difficulties and, in some cases, direct additional resources where limitations on proficiency are greatest. For example:

- Alberta (Canada) – 36 per cent for students identified as having insufficient fluency in English to achieve grade-level expectations.
- San Francisco (United States) – ranges from 61 to 94 per cent based on year level and performance in an English language test.

While it is not possible at present to be specific about the level of each loading, in relative terms the panel would expect the total resources to be allocated through them to be largest for low socioeconomic status, then size and location, then Indigenous and then limited English language proficiency. This reflects the relative number of students of each type across the whole schooling system as well as the resource intensity of educational improvement. This does not take into account students with disability as it was not possible to make indicative estimates for these until further work on nationally consistent data are completed.

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