

**Submission**

To the Senate Select Committee on School  
Funding



**Independent  
Schools** Victoria

# Inquiry into National School Funding Arrangements and School Reform

**21 March 2014**

### **The Independent Schools Victoria Vision:**

A strong Independent education sector demonstrating best practice, providing excellent outcomes for students and choice for families.

To realise this, we:

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

Independent Schools Victoria will assist our 209 diverse Member Schools to continue providing the best possible education outcomes for the citizens of tomorrow.

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# Introduction

Independent Schools Victoria welcomes the invitation to provide comment on the Senate Select Committee's inquiry into the development and implementation of national school funding arrangements and school reform, and we look forward to taking an active part in these important debates.

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

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

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

Based on these four principles, we proposed a Portable Funding Allowance model that would comprises a base component, topped-up with evidence-based loadings for individual special needs. It would be available to government and non-government schools and treat all Australian students equally, regardless of schooling sector.

Independent Schools Victoria supports the criteria for effective funding models identified by the Independent Schools Council of Australia in its submission to this Committee. The criteria are that any funding model should encourage investment and be:

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

The new funding model has strengths; it meets a number of the philosophical goals that the Review of Funding for Schooling wished to achieve and some but not all of the above criteria. This shortfall limits its ability to provide schools with sufficient funding to ensure that all Australian students receive a quality education.

This submission addresses some of these key limitations, both systemic issues inherent in the model's design, and operational issues associated with the interpretation of the model as it applies at the individual school level. This submission does not seek to identify or discuss alternate funding models for Australian school education.

Our submission is made on behalf of our Member Schools, and should be read in conjunction with and in support of the submission of the Independent Schools Council of Australia.

## Background

Independent Schools Victoria was established in 1949 and today represents, promotes the interests of, and provides services to 209 Member Schools. Our Member Schools educate more than 132,000 students on over 300 campuses across metropolitan Melbourne and in regional and rural Victoria.

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

Member Schools follow different approaches to education including Montessori and Steiner education philosophies.

## Recommendations

Independent Schools Victoria's recommendations are:

1. Remove the increased funding for concentration of disadvantage in the low SES loading, and replace it with a flat amount per student.
2. Remove the increased funding for concentration of disadvantage in the Indigenous loading, and replace it with a flat amount per student.
3. Reduce the proportion of funding allocated to student socioeconomic disadvantage.
4. Allocate Commonwealth funding equitably to all Australian schools, regardless of the state or territory in which the school is located.
5. Continue to provide government capital funding to Block Grant Authorities to support non-government schools.
6. Remove funding for students with disability from the pool of general recurrent funding and allocate it as a sector-based targeted program.
7. Apply regulations regarding the use of recurrent funding for capital purposes equally to all schools.
8. Amend legislation so that both Special Schools and Special Assistance Schools are eligible to receive 223 per cent of the Student Resource Standard through the Students with Disability Loading.
9. Require the Commonwealth Department of Education to release, as a matter of priority, tools that enable schools to accurately calculate their funding entitlements in 2014 and beyond.

## Systemic Issues

Independent Schools Victoria supports the basic architecture of the current school funding arrangements, which provides base funding for all schools plus additional loadings for particular categories of educational need. We welcome the provision of 100 per cent of the loadings amounts to all Australian schools, regardless of sector.

We also welcome the use of SES to determine the *Capacity to Contribute* of non-government schools, rather than the private income received by schools from parents. However if capacity to contribute is considered an important element in determining student-level educational outcomes, why is it not applied to government schools?

The commitment in the *Australian Education Act* ensuring that schools above the Student Resource Standard (SRS) will continue to receive funding increases of three per cent per student per annum is appreciated by schools that that set must long-term financial plans as part of their state registration requirements.

### Loadings for ‘concentrated disadvantage’

Both the Low SES loading and the Indigenous loading within the model provide funding for concentrated disadvantage – that is, the funding per student increases as the proportion of eligible students increases in a school. This arrangement contravenes our guiding principle that funding should follow the student, not the school.

In its submission to the Review of Funding for Schooling, Independent Schools Victoria said<sup>1</sup> that a new school funding model should comprise:

- a *per capita* component
- loadings for students with special needs.

The broad architecture of the funding reforms does reflect these two characteristics.

However, we also submitted that the funding components should be:

- evidence-based
- student-centred
- equally available to students in government and non-government schools.

The chosen loadings for the special needs of low SES and Indigenous students do not appear to be evidence-based. Nor are they student-centred. As a result, they are not equally available to all schools, and may not be equally available for government and non-government schools. The design of these loadings needs to be improved.

### Low SES Loading

There are two sub-loadings within the Low SES loading: a higher loading for the bottom 25 percent (or quartile) of students (‘Q1’) and a lower loading for the second quartile (‘Q2’). In turn, these loadings are higher for secondary school students than for primary school students. So, in effect, there are four Low SES loadings.

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<sup>1</sup> Independent Schools Victoria, *Review of Funding for Schooling Response*, p34

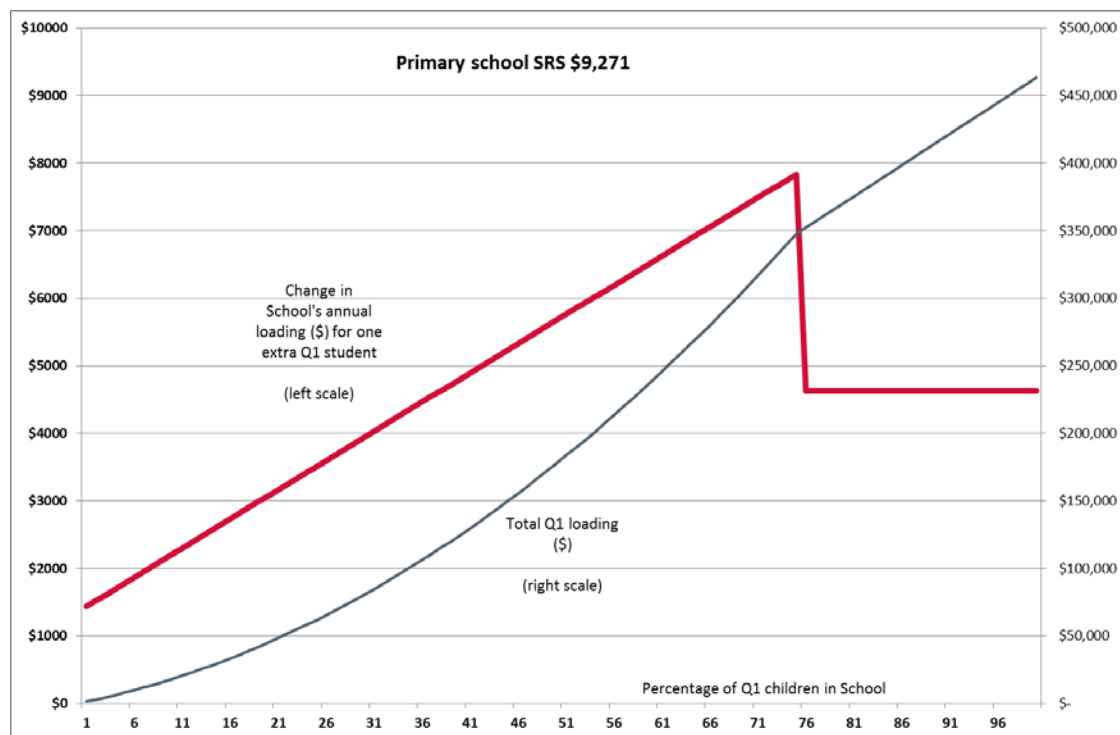
The Q1 loading, as it applies to Primary schools, is shown in Figure 1. For simplicity, the school illustrated here is assumed to have 100 students. The additional government funding (the 'Marginal Loading') rises with each extra Q1 student until 75 per cent of the students are from a Q1 background. (The rise is not constant because extra funding will apply not just to the incremental Q1 student, but to the all other Q1 students at the school as well.) The Marginal Loading starts at only \$1434 per annum for the first Q1 student and rises to a peak at \$7837 for the 75<sup>th</sup> Q1 student.

That is, the 75<sup>th</sup> Q1 student will generate an extra \$5403 (i.e. \$7837 minus \$1434) in government funds compared to the first student – largely because that student also increases the funding received for the first 74 Q1 students. Put another way, the 75<sup>th</sup> student generates an extra 85 per cent in government funds (\$7837) on top of their base level of Primary school funding (assumed to be \$9271). The 76<sup>th</sup> and subsequent students will generate an extra \$4636 per annum each because they do not generate additional funding for other students.

The grey line (which is read against the right axis) shows how the school's total dollar pool of Q1 loadings rises at an increasing rate up until the 75<sup>th</sup> student and then rises at a steady rate thereafter. (In fact, the red line shows the slope of the grey line.)

The other three Low SES loadings share the same design features of that illustrated in Figure 1 (and have therefore not been included in this submission).

**Figure 1: Marginal Loading for a Primary School's Q1 student intake**



The design of the low SES loadings is poor public policy for four reasons:

**1) They are complex and lack transparency.**

Current design

For the 'x'th Q1 student, the Marginal Loading calculation in Figure 1 cannot be reduced beyond:

$$[\min(50\%, 15\% + x/n*7/15) * x] - [\min(50\%, 15\% + (x-1)/n*7/15)*(x-1)]$$

{where 'min' is the minimum operator and 'n' is the number of students at the school}

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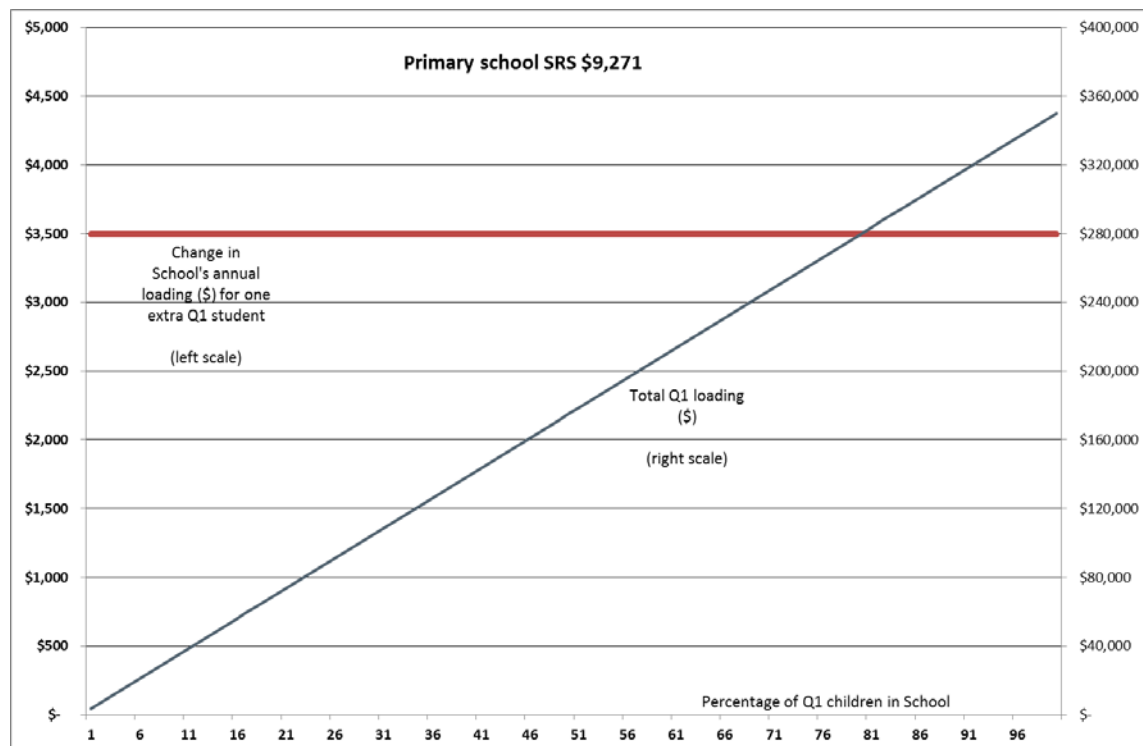
In our submission, we proposed a much simpler model with student-centred funding (that is, where "funding follows the student") in which case the Marginal Loading calculation is equal to just z%

{where z is the low SES loading which applies uniformly for each student}

**Recommendation 1: Remove the increased funding for concentration of disadvantage in the low SES loading, and replace it with a flat amount per student.**

This simple arrangement is shown in Figure 2, which may be contrasted with Figure 1. In Figure 2, 'z' is a parameter and can be set by policy makers to their preferred level. For example, with z = 37.75%, the amount of funding per primary school Q1 student is \$3,500 per annum.

**Figure 2: A model where funding 'follows the student'**



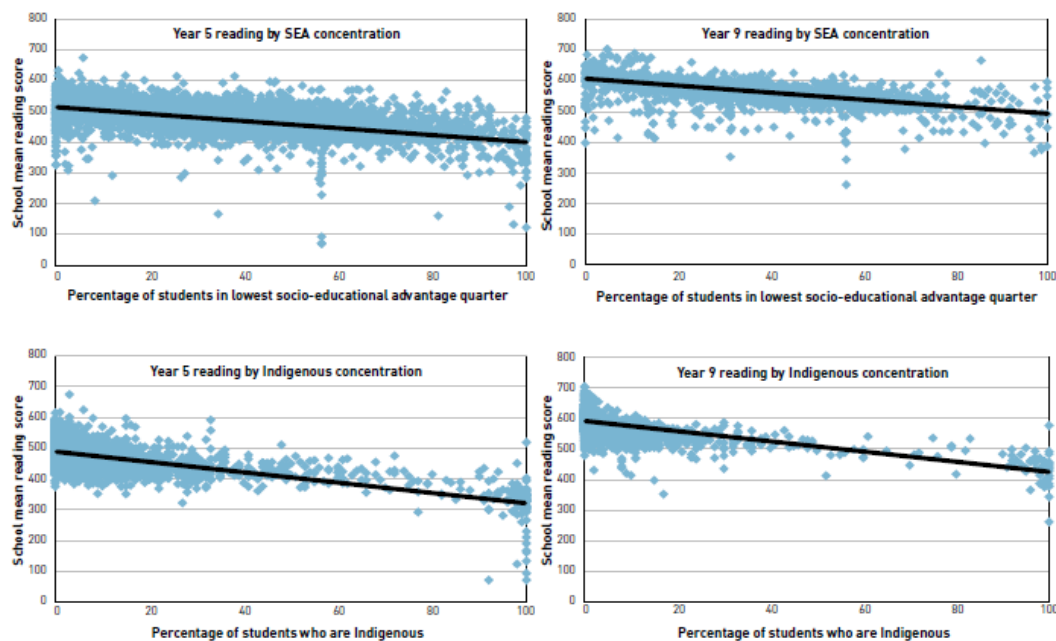
## 2) They are inefficient and lack an evidence base.

An economically efficient loading design would ensure that the profile of the Marginal Loading chart would match the profile of a school's Marginal Cost of educating a rising share of Q1 students. If the profiles don't match then perverse incentives will be provided – as discussed below.

Given Figure 1, the present low SES loadings will be efficient only if there are *strong and rising* 'diseconomies of scale' in schooling costs up until exactly the 75<sup>th</sup> percentile of Q1 students, followed by *constant* marginal schooling costs for each Q1 student thereafter. We have no confidence in any such claim – indeed it conflicts with key evidence provided in the Report on the Review of Funding for Schools.

In the Gonski report, Figure 57 (p259) maps an Australian Curriculum, Assessment and Reporting Authority (ACARA) dataset of National Assessment Program – Literacy and Numeracy (NAPLAN) Year 5 and Year 9 reading scores by school. Schools are ranked according to their share of Q1 students.

Figure 57: NAPLAN school reading scores by concentrated disadvantage, 2010



Source: ACARA dataset 2011.

The Figure shows that as a school's share of Q1 students rises, average reading scores decline. This is consistent with all countries in showing a relationship between lower SES scores and lower reading scores. However, international comparisons using Program for International Student Assessment (PISA) data show that Australia has a weaker relationship between socioeconomic status and student performance than the OECD in general. As a consequence, Australia is classified in PISA analysis as having a 'high equity' schooling system<sup>2</sup>.

<sup>2</sup> OECD 2013, *PISA 2012 Results: Excellence through Equity, Volume II*, p27



Figure 57 also shows that there is a large amount of variation in reading scores between Australian schools, even among those that have the same proportion of Q1 students. This shows that factors *other than* SES are important in explaining variations in scores. This is evidence against applying a large loading for Q1 students.

Even so, the relationship between Q1 students and their reading scores is even weaker than that suggested by Figure 57:

- Each school 'dot' represents the pooled average for each student at that school.
- As such, each 'dot' will be much closer to a central line of 'best fit' between Q1 students and their reading scores – the bold lines in the figure.
- That is, the figure *understates* the actual variation from a (more relevant) student-centred perspective and gives a stronger visual impression of the case for a large Q1 loading than would be justified by an intelligent analysis of the raw numbers.

Most importantly, the lines of 'best fit' that have been superimposed on these data panels are linear – they have a constant slope.

- If higher concentrations of Q1 students lead to lower average reading performance, the scores should fall relatively more rapidly as concentrations rise, rather than falling constantly<sup>3</sup>.
- A constant decline in performance contradicts the present Q1 design element, which assumes that there are strong and rising 'diseconomies of scale' in schooling costs up until the 75<sup>th</sup> percentile of Q1 students.
- In the absence of any definitive evidence, it might be just as likely that there are 'economies of scale' in schooling students with disadvantages – for example by allowing more specialised teachers and classes. If so, that would be an argument in favour of a *declining* Marginal Loading (from a higher starting level) as the Q1 proportion of a school rose.

Independent Schools Victoria does not advocate the introduction of a declining Marginal Loading in the model for the same reasons we don't support the current rising Marginal Loading model – it would be unduly complex and would establish perverse incentives. Nonetheless the apparent contradiction between the design of the low SES loadings and the evidence provided by Gonski's Figure 57 needs to be explained.

### **3) They invite incentives for 'gaming' by schools, sectors and states.**

As the shape of the Marginal Loading curve appears to have little relationship to the likely actual marginal cost curve for effectively schooling an extra Q1 student, the current design is likely to have some unintended consequences, at the student, school and sector level.

One of the aims of the Review of Funding for Schools was to address concerns about the 'residualisation of education', by which disadvantaged students become increasingly concentrated in a small number of schools. However, the funding model as it stands actively encourages this concentration of disadvantage, because a disadvantaged student is more attractive to a school with a higher existing concentration of disadvantage.

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<sup>3</sup> The 'line of best fit' would of course be linear if the reading scores had been presented in logarithmic form, but this is clearly not the case.

While the funding model does provide incentives for individual schools to enrol more students from low SES backgrounds, it provides greater incentives for sectors and/or States that control multiple schools to channel low SES students from 'low cost' to 'high cost' schools. Funding doesn't follow the student whichever school they attend. Instead, the funding loading is 'supercharged' when disadvantage is concentrated in the one school.

For example, examination of the right scale of Figure 1 shows that a Primary school with 100 enrolments and 100 Q1 students and a Primary school with 100 enrolments and 0 enrolments will receive total funding of \$463,550 – a 30 per cent loadings bonus compared to two Primary schools with 100 enrolments each and each with 50 Q1 students ( $2 * \$177,694 = \$355,358$ ).

For school systems that act as funding providers as well as funding recipients, incentives are sharpened by the fact that the Commonwealth is expected to pick up the majority (about 65 per cent) of the extra cost of the new arrangements.

The impacts of changing the funding 'rules of the game' in such a radical fashion is not easy to predict, at least in the short term but given time:

- Australian schools will become more socially segregated and 'residualised' in order to maximise their share of the financial rewards now on offer.
- This will result in 'unforeseen' budget costs for the Commonwealth, and possibly for some state/territory governments. The sustainability of the reform may then be challenged.
- This in turn could lead to a backlash with greater demands for stronger regulation of schools, sectors and/or greater tied state/territory funding in order to contain cost-maximising 'abuses'. Alternatively, the backlash may take the form of reduced government funding support for all schools.

#### **4) They are unfair in their treatment of different schools and sectors.**

As identified above, a Primary school Q1 student may attract as much as an extra \$7837 above 2014 SRS or as little as \$1434 – a difference of \$6403 – depending on which school they attend.

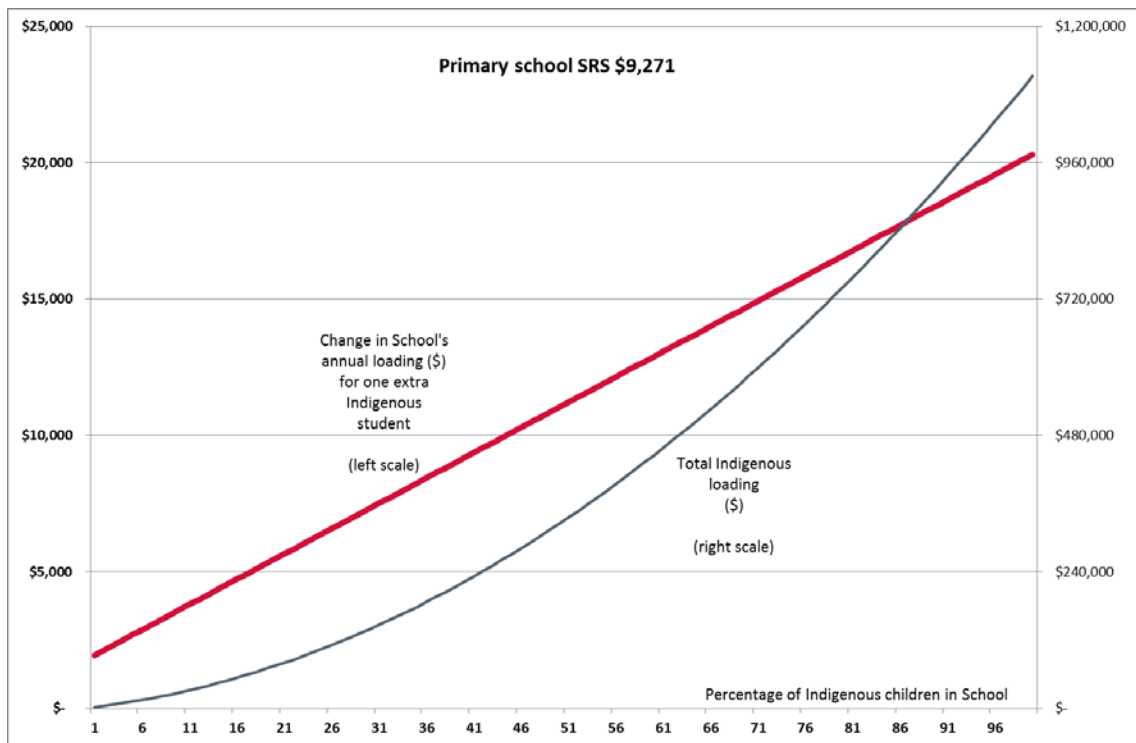
A Secondary school Q1 student may attract as much as an extra \$10,307 above 2014 SRS or as little as \$1886 – a difference of \$8421 – depending on which school they attend. This is not fair and nor is it consistent.

#### **Indigenous Loading**

All of the arguments that apply against the design of the low SES loadings apply equally to the Indigenous loading (see Figure 3 over the page). The first Indigenous student attracts \$1947 per annum, while the last Indigenous student attracts more than ten times as much (\$20,303 per annum).

The claim that an increase in the concentration of Indigenous students is associated with strongly deteriorating performance is at odds with the Gonski Report's Figure 57 (see page 8).

**Figure 3: Marginal Loading for a Primary School with Indigenous students**



**Recommendation 2: Remove the increased funding for concentration of disadvantage in the Indigenous loading, and replace it with a flat amount per student.**

## Focus on socioeconomic disadvantage in the model

Within the current funding arrangements, the largest single determinant of a school's funding after the number of enrolments is the socioeconomic background of its student population. All schools receive significant funding through the Low SES loading, while for non-government schools, their funding is also reduced below the SRS amount as the Socioeconomic Status (SES) score of the school community increases.

However, the evidence base used to justify expending large amounts of taxpayer revenue on socioeconomic status overestimates the relative importance of socioeconomic disadvantage on student outcomes. Research has consistently demonstrated that, at the individual student level, the socioeconomic status of the student has a limited impact on that student's educational needs and outcomes. On the other hand, research that aggregates individual student performance data to the school level, or even higher, automatically increases the apparent statistical relationship between student socioeconomic status and educational outcomes, simply because it masks the wide variation between individual students. It is this latter research which has been particularly influential with regard to the development of funding arrangements for Australian schools.

What seems to be missing from the research base used to determine funding arrangements is consideration of what is causing apparent differences in student outcomes for schools with different concentrations of socioeconomic disadvantage. On page 124 of the Gonski report, it notes the conclusions of 2010 research by Perry and McConney<sup>4</sup>. They argued that some of the differences in average educational outcomes for students from schools with different concentrations of students from disadvantaged socioeconomic backgrounds were caused by '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'.

Research has consistently demonstrated that the most important determinant of a student's performance, beyond their innate ability, is the quality of the teacher. Further research into the links between socioeconomic disadvantage and student performance may therefore reveal that a focus on improving the quality of teachers in all Australian schools, rather than providing additional funding through socioeconomic loadings, may prove to be more effective and more efficient in addressing student educational disadvantage.

Independent Schools Victoria recognises the need for funding arrangements to reflect differences in the socioeconomic status of students. We do not advocate the removal of a loading for socioeconomic disadvantage from the funding arrangements. However, we do not believe that available evidence justifies the large amount of funding allocated to schools according to the Low SES loading, especially in combination with the Capacity to Contribute modifier used for base funding of non-Government schools..

### **Recommendation 3: Reduce the proportion of funding allocated to student socioeconomic disadvantage**

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<sup>4</sup> Perry, L & McConney, A 2010 'School socioeconomic composition and student outcomes in Australia: Implications for educational policy', *Australian Journal of Education*, vol. 54 (1), pp 72–85.

## National Funding Model

As identified in the submission by the Independent Schools Council of Australia, it is inaccurate to refer to a single, national funding model under current funding arrangements. Under the model, a school's 2014 funding is determined by the amount of funding that the school received from both the Commonwealth and state government in 2013, as well as the agreement reached (or not) between the Commonwealth and the state government in 2013 regarding transition arrangements. As a consequence, two schools with exactly the same need profile in different states will receive different funding allocations during the transition period.

Moreover, the Australian Government has only committed to providing funding through the Forward Estimates period of four years. By contrast, the current funding model is predicated on a six-year transition path. If the full six-year transition is not implemented, schools in different states and territories will receive different funding, with Commonwealth funding for schools in each state having effectively been determined by the amount of state funding provided to those schools in 2013.

Even if it is assumed that the full six-year transition model outlined by the previous Commonwealth Government is implemented, schools in different states and territories will still not receive the same funding allocations. Schools that were open in 2013 in all states and territories except for the ACT are expected to reach approximately 95 per cent of SRS at the end of six years. However, the exact amount will vary, with, for instance, modelling suggesting that Victorian government schools will achieve significantly less than 95 per cent of SRS by the end of the six years. Meanwhile, schools in Western Australia receive a 111 per cent funding bonus during the transition period (and it is unclear whether this arrangement will continue beyond the transition period), schools in the ACT are expected to reach 100 per cent of SRS by the end of the six year period and schools that open or change their registration status on or after 1 January 2014 will receive 100 per cent of SRS from the moment that they commence operations.

Under previous Commonwealth funding allocations, there was no differentiation in the funding for schools from different states. Instead, any differences in funding reflected the different priorities and fiscal positions of those governments. Independent Schools Victoria is concerned that, with the conflation of state and Commonwealth funding under the new model, the concept that Commonwealth funding is provided equitably to all Australian schools seems to have been lost.

To ensure that all Australian schools receive a basic level of support, the Australian Government should remain an important funding provider for school education. We recommend that Commonwealth funding be provided equitably, with no differentiation made for the state or territory of the school being funded. If an issue is identified that impacts on student achievement in a particular state, that issue should either be included as an element of the model, and applied to all students, or be included in transition arrangements to ensure that all schools reach the same end point.

**Recommendation 4: That Commonwealth funding be allocated equitably to all Australian schools, regardless of the state or territory in which the school is located.**

## Support for Students with Disability

It has long been recognised that government funding is insufficient to meet the complex needs of students with disability. This is particularly the case in non-government schools, where the limited government funding places the burden of supporting such students on the school community, through higher school fees for all students.

In 2013, much of the public discussion regarding the introduction of a loading for students with disability suggested that the new funding arrangements would 'solve' the historical difficulties regarding funding these students, particularly when linked to the introduction of the National Disability Insurance Scheme (NDIS). However, Independent Schools Victoria is concerned that the removal of targeted funding support for students with disability in Independent schools, has actually made it more difficult for Independent schools to meet their requirement under the *Disability Discrimination Act* and the associated *Disability Standards for Education* to ensure that students with disability are able to access education on the same basis as other students.

As identified in the submission by the Independent Schools Council of Australia, prior to 2014 Commonwealth funding support for students with disability was provided to the state and territory associations of Independent schools. The total amount of funding was low but the value of the minimal funding was maximised by having a centralised process that identified and supported students providing economies of scale and other efficiencies.

While some Independent schools have considerable experience and staff expertise in providing programs for students with disabilities, many schools do not. Under the previous funding arrangements, schools with smaller numbers of students with disability that were less able to meet students' complex needs could be supported by their state or territory association.

The ability of government and Catholic sectors in each state and territory to pool and re-distribute recurrent funding means that the same funding outcome would be achieved regardless of whether funding for students with disability formed part of recurrent funding or a targeted funding stream. For Independent schools, however, the change will reduce the expertise and flexibility of the sector, while simultaneously increasing the cost of meeting students' needs.

### **Recommendation 5: That funding for students with disability be removed from the pool of general recurrent funding and allocated as a sector-based targeted program.**

We note that the NDIS will do little to improve the educational outcomes for students with disability, because education is explicitly excluded from the NDIS. Funding under the NDIS can only be used to support the following services for school students:

- attendant care
- transport to and from school
- transition between school and post-school destinations.

The introduction of the NDIS could theoretically cost schools more money than previously. As the NDIS permits the parents of a disabled child to determine how best to allocate any funding support, a parent could choose to divert existing funding support from their child's school to other areas of need. The school would still be required under the Disability Discrimination Act to ensure that the child received the appropriate services, and would therefore have to continue to fund such services, only without funding support.

## Capital Funding

On page 160 of the Gonski report, the Review Panel noted that 'any policy for resourcing schooling should include the ability to address the capital costs of schools...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 panel concluded, however, that it was not currently feasible to include a capital component in the resource standard (p161). Instead, the Gonski panel recommended the establishment of School Planning Authorities in each state and territory, as well as the creation of a School Growth Fund that would provide capital funding support to schools in all sectors (p186).

The Australian Government elected not to support this recommendation, instead retaining the provision of capital funding to the Block Grant Authorities for Catholic and Independent schools in each state and territory. Independent Schools welcomes this decision. However, we would note that the Guide to the Australian Education Act indicates that the new legislation permits government schools (as well as special schools, special assistance schools, majority Indigenous student schools and remote sole provider schools) to allocate any or all of their recurrent funding to the purchase of buildings and land – something that has been denied to all other non-government schools. The Guide to the Act also permits all schools to spend recurrent funding on 'capital equipment' – despite not defining capital equipment, other than as a sub-set of capital expenditure (for which recurrent funding cannot be used).

Additional capital funding should be provided for all Australian schools, and a separate stream of capital funding continue to be provided to Block Grant Authorities to support non-government schools. We are concerned that state governments could reduce recurrent expenditure on schools in order to fund capital infrastructure. We are also concerned that Independent schools, which must raise the bulk of their funding for capital purposes from their parent community, are denied the ability to make the same choices about the most efficient use of their recurrent funding.

**Recommendation 6: That government capital funding continue to be provided to Block Grant Authorities to support non-government schools**

**Recommendation 7: That regulations regarding the use of recurrent funding for capital purposes be applied equally to all schools**

## Funding for Special Assistance Schools

Under the *Australian Education Act* all special schools and special assistance schools (SAS) receive 100 per cent of SRS through their base funding. However, under the SWD loading, while the Act provides special schools with 223 per cent of SRS for each student with disability, SAS schools receive 186 per cent of SRS per student with disability – the same amount as mainstream schools.

Section 6 of the Act defines a special assistance school as a school that:

- (a) is, or is likely to be, recognised by the State or Territory Minister for the school as a special assistance school; and
- (b) primarily caters for students with social, emotional or behavioural difficulties.



A special school means a school that:

- (a) is, or is likely to be, recognised by the State or Territory Minister for the school as a special school; and
- (b) provides education under special programs, or special activities, designed specifically for students with disabilities.

However, this definition fails to deal adequately with schools that primarily cater for students with *social or emotional* disabilities.

When the SES funding model was introduced in 2001, non-government special schools were eligible to receive maximum funding. In 2006, the Australian Government introduced SAS schools as a new category of schools that would also receive maximum funding. However, in many cases, the new SAS schools were simply special schools that were re-classified. In Victoria, these schools were not consulted about the change. Instead they were told that, since there was no funding difference between special and SAS schools the re-classification would have no impact.

Below is a list of all Victorian Independent Special and SAS schools.

School	2013 Enrolments	2013 SWD	Status
Albury Wodonga Community College	102	0	SAS
Berengarra School	58	58	SAS
Berry Street Victoria	128	77	SAS
Cheshire School	14	14	SAS
Frank Dando Sports Academy	27	27	SAS
Kamaruka	24	20	SAS
Rosbourne School	128	122	SAS
The Currajong School	48	48	SAS
Worawa Aboriginal College	62	0	SAS

Andale School	28	22	Special
EdSpace	26.2	26.2	Special
Insight Education Centre for the Blind and Vision Impaired	3.8	3.8	Special
Mansfield Autistic Centre	23.6	23.6	Special

Most of the SAS schools do cater primarily for students with disability. However, because they were reclassified as SAS schools in 2006, they are no longer eligible to receive the same funding as other schools catering for similar students. These schools cannot be re-classified by the Victorian Government as Special schools, as Victorian registration regulations classify all Special Schools and SAS schools as 'specialist schools', without distinguishing between the two types of school. Thus, the fairest solution is to amend the legislation.

**Recommendation 8: That legislation be amended so that both Special Schools and Special Assistance Schools are eligible to receive 223 per cent of the Student Resource Standard through the Students with Disability Loading**



## Operational Issues

The systemic issues addressed above are of long-term importance but the greatest frustration for Independent schools is the confusion regarding the implementation of the current funding arrangements. The uncertainty regarding the calculation mechanisms for several of the funding loadings, and the intricacies of calculating an individual school's funding entitlement mean that schools have difficulty in accurately calculating their current entitlements.

### Budgeting Difficulties

The fundamental difficulty facing schools under the new funding arrangements is their inability to budget and plan appropriately. Schools were only informed of their initial funding allocations for 2014 in December 2013. The complexity of the transition arrangements makes tracking changes in funding as a result of changes in enrolments extremely difficult. The Department of Education has not to date provided schools with the tools to be able to complete this task.

This has obliged Independent Schools Victoria to develop its own funding calculator, which allows schools to quickly and easily see how their Commonwealth funding will be impacted by changes to the school's enrolments and other data. However, since this tool was developed by Independent Schools Victoria, and not by the Department of Education, we cannot guarantee that our model will be completely accurate for schools budgeting for 2014 and beyond.

**Recommendation 9: That the Commonwealth Department of Education release, as a matter of priority, tools that enable schools to accurately calculate their funding entitlements in 2014 and beyond.**

### Treatment of Schools that opened after 2011

A school that opened or changed its registration status between 2011 and 2013 will face considerable difficulty in budgeting. As the data used to generate schools' 2013 government funding derive from the 2012 Financial Questionnaire (2011 data), these schools were treated as if they were new schools when calculating initial 2014 funding. Under the funding arrangements, the schools notionally received 100 per cent of their SRS entitlement. The Commonwealth's share of this entitlement was then calculated as the average Commonwealth share of total funding for all schools in the same state and sector.

However, once such schools provide their 2014 Financial Questionnaire, based on its 2013 financial accounts, the schools will be re-classified as existing schools, and funded accordingly. This will potentially result in a significant reduction in 2014 funding. The schools have not been informed by the Department of Education of the process, so they do not know whether their funding will drop or by how much.

One school, for which the switch from being treated as a new school to being classified as an existing school means that the initial funding advice from the Department of Education over-estimated the school's 2014 funding by more than \$130,000. Even after factoring in a 13 per cent increase in enrolment numbers, we project that the school's initial 2014 funding allocation is more than \$100,000 higher than the school is likely to receive at the end of the year.

This is a relatively small school and it would not have been able to adjust its financial situation had not the discrepancy been brought to light when it received its final grant payment in October/November 2014. Without suggesting that this would apply to the school in question, such a large discrepancy in government funding could force a smaller school to close because it was temporarily insolvent. In addition, the magnitude of the error would only compound as the school attempted to budget beyond 2014.

### **2014 transition enrolments**

Another example where initial Commonwealth funding estimates would be misleading is where schools that are 'below SRS' are only just receiving funding increases of more than three per cent per student in 2013.

For each Australian school, the Commonwealth has created estimates of 2014 enrolments, based on an indexation of 2013 enrolment numbers. The indexation applied was based on an expected average for all students at each level (primary/secondary), in each state and sector.

In the case of a small number of schools, when the Commonwealth factored in the expected enrolment increases, the funding, as calculated using 2013 enrolment numbers, would have dropped to slightly below a three per cent increase in funding. The Department of Education therefore decided to make the initial 2014 funding payment based on the schools' estimated 2014 enrolments.

However, we understand that affected schools were not notified of this decision. As a consequence, these schools, when budgeting for 2014, would be in danger of over-estimating their 2014 final funding allocations.

### **State 2013 funding overestimation**

A systemic issue has emerged in Victoria that suggests that most, if not all, Victorian schools might have received less from the Commonwealth in their initial 2014 grant payment than they should have. To determine schools' initial 2014 funding allocations, the Commonwealth had to estimate schools' 2013 funding from the Victorian Government. These estimates were obtained by indexing schools' 2011 Victorian Government funding.

However, based on information provided by the Victorian Treasury, the Commonwealth estimates of 2013 Victorian Government funding are overstated. The consequence of this is to overstate the Victorian Government's share of total 2013 government funding for schools, which therefore reduces the total amount of 2014 funding provided by the Commonwealth.

This error will be rectified at the end of 2014, once schools submit their 2014 Financial Questionnaire (2013 data). However, schools will have already budgeted using the initial calculations, with little ability to identify and address the funding disparities.

### **Data Calculation and Quality**

In addition to the difficulties that schools have in calculating their actual funding entitlements in 2014, the data used to generate three of the loadings adds a further layer of complexity. As identified in the Independent Schools Council of Australia submission, the Low SES, English Language Proficiency and Students with Disability loadings are all based on proxy measures, while the quality of the data used to generate the Low SES and English Language Proficiency loadings is poor. Moreover, the process for calculating a school's Low

SES loading using socio-educational advantage (SEA) data cannot be calculated by schools without access to the SEA data for every Australian school.

Even were schools able to estimate their funding entitlements for 2014, changes to these three elements of the funding model make it impossible for schools to predict what their funding entitlements would be beyond 2014.

## Conclusion

Independent Schools Victoria supports many of the philosophical ideas that that underpin the new Commonwealth funding arrangements but as we have shown there are systemic issues that need to be addressed.

The rushed implementation of the new funding arrangements, and the lack of information for schools, has created considerable confusion and difficulty for Independent schools to plan. The timelines have frequently meant that Departmental officials have been unable to assist schools with their queries, because they themselves are struggling to deal with the complexities of the new funding arrangements.

Schools in the government and Catholic sectors are insulated from these difficulties because education departments and Catholic sector administrators are able to redistribute money between schools to alleviate funding issues. Independent schools do not have this flexibility. It is vital that they have access to accurate and timely information regarding government funding sources as it applies to their individual school so they can plan and budget effectively.

Independent Schools Victoria does not believe that any of the issues addressed in this submission are insurmountable, and we look forward to continuing to collaborate with all sectors in ensuring that Australian students receive the best possible education.