

Senate Select Committee into the Australian Education Amendment Bill 2017

Submission from the Australian Government Department of
Education and Training

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List of Acronyms

| | |
|------|---|
| CPI | Consumer Price Index |
| ISCA | Independent Schools Council of Australia |
| NERA | National Education Reform Agreement |
| NCCD | Nationally Consistent Collection of Data on School Students with Disability |
| NCEC | National Catholic Education Commission |
| OECD | Organisation for Economic Cooperation and Development |
| PISA | Programme for International Student Assessment |
| SES | Socio-economic Status |
| SRS | Schooling Resource Standard |
| WPI | Wage Price Index |

Executive Summary

The Australian Government announced its Quality Schools package on 2 May 2017 and the Australian Education Amendment Bill 2017 (the Bill) was tabled in Parliament on 11 May 2017.

The package will deliver a record investment of \$242.3 billion in school recurrent funding from 2018 to 2027, including \$81.1 billion over 2018 to 2021.

Recurrent funding for schools will grow from \$17.5 billion in 2017 to \$30.6 billion in 2027. This builds on significant increases in funding for schools for more than a decade. From 2005-06 to 2014-15, Commonwealth funding per student grew in real terms by 43.7 per cent.

This record level of school funding will be allocated between states and territories (states), sectors and schools based on the needs of their students. The proposed new funding model removes the inconsistent arrangements currently in place.

Under current arrangements, students with the same need in the same sector are treated differently because of the state in which they live. Furthermore, a school in a non-government system is treated differently than individual non-systemic independent schools with the same need.

The new arrangements will remove these inconsistent arrangements and deliver an average annual increase for government schools of 5.1 per cent per student over the next decade, well above inflation and wages growth, and above the maximum annual increase for participating states under the existing *Australian Education Act 2013* (the Act).

Over the same period, funding for the Catholic sector will increase by 3.5 per cent per student and by 4.1 per cent per student for the Independent sector.

These growth rates differ as, over the next 10 years, all schools will transition from currently inconsistent starting points to consistent Commonwealth shares of the Schooling Resource Standard (SRS) by increasing Commonwealth funding from an average of:

- 17 per cent of the SRS in 2017 to 20 per cent in 2027 for all government schools
- 77 per cent of the SRS in 2017 to 80 per cent in 2027 for all non-government schools.

Every school will be funded according to their entitlement by 2027. This compares with current arrangements that will take more than 150 years to reach the end of the current transition, if ever.

A small number of non-government schools will see negative growth in their funding during the transition period. An additional \$39.8 million adjustment fund will be established to provide financial assistance to disadvantaged and financially vulnerable schools that face a reduction in funding per student.

Under the new approach, the same student with the same need in the same sector will attract the same amount of Commonwealth funding regardless of the state in which they live.

If the Bill is not passed in 2017, the current provisions in the Act will remain in force. This will mean that the distinction between 'participants' and 'non-participants' will remain along with the inconsistent arrangements currently used to calculate recurrent funding.

Current legislated indexation arrangements for non-government schools and participating states (New South Wales, South Australia and the Australian Capital Territory) will apply. Funding for other states would need to fit within the remaining available funding envelope.

Introduction

The Australian Government Department of Education and Training welcomes the inquiry into the Australian Education Amendment Bill (the Bill). This submission provides an overview of the Australian Government's schools funding and reform arrangements from 2018, and the proposed legislative amendments by which these arrangements will be implemented.

The Bill was introduced in the House of Representatives on 11 May 2017 and amends the *Australian Education Act 2013* (the Act). Together with amendments to the *Australian Education Regulation 2013* (the Regulation), the Bill will give effect to the Australian Government's Quality Schools package.

The Bill is presented in a single schedule divided into three parts:

- improvements to the calculation of Commonwealth funding for schools
- key policy amendments relating to reform and accountability
- miscellaneous and technical amendments.

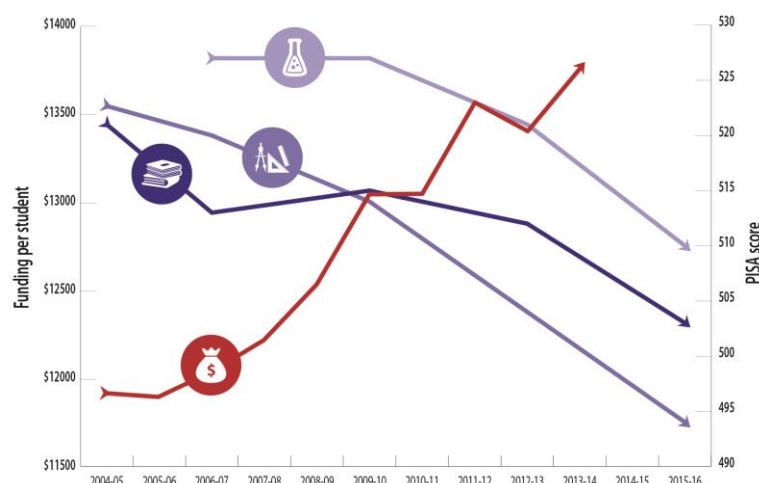
This submission provides the context behind the amendments to the Bill and a summary of the policy intent within each part.

The case for change

Over the 10 year period from 2005-06 to 2014-15, total combined Commonwealth and state government funding grew in real terms by 15.4 per cent per student and Commonwealth funding per student grew in real terms by 43.7 per cent. In particular, Commonwealth funding on a per student basis for government schools has grown in real terms by 72.4 per cent.

According to the Organisation for Economic Co-operation and Development (OECD) *Education at a glance*, Australia is a higher than average investor in school education among OECD member countries. However, as Figure 1 shows, Australia's performance in international testing has declined both relative to other countries and in real terms over the same period that funding has increased.

Figure 1: Total public funding for schools and PISA results since 2004-05



Source: PISA 2015: Reporting Australia's results (ACER) Report on Government Services, (1999 –2017), Australian Productivity Commission

Simply providing more funding does not necessarily improve student outcomes. The OECD has found that for high-income countries like Australia, once a threshold level of investment has been reached¹, it matters more how money is spent, than how much is spent.²

Under the current Act, funding is not effectively targeting need and is not driving improved outcomes. The funding settings established in the Act and the complex, lengthy and inconsistent transition arrangements, has resulted in distribution of funding that varies considerably across states and within sectors.

This means that students with the same need in the same sector receive different levels of Commonwealth funding because of the state in which they live. It also means a school in a non-government system is treated differently than the same school if it were an individual independent school.

Figures 2 and 3 show the different funding levels in 2017 that a student with the same need would get in each state and sector. The level of need is measured using the national average SRS calculated based on the new SRS settings to remove the effect of the distortions in the current model that mask the needs of students.

Figure 2: 2017 Commonwealth funding for a student with national average need in the government sector and using the average Commonwealth share of the SRS by state.

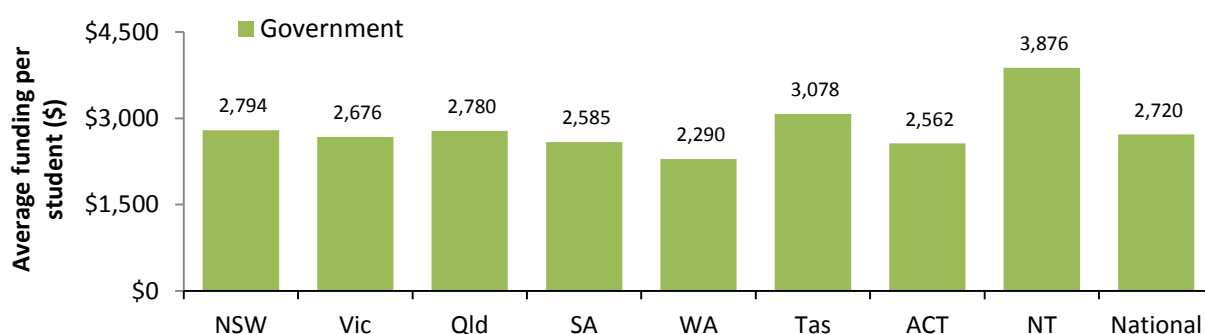
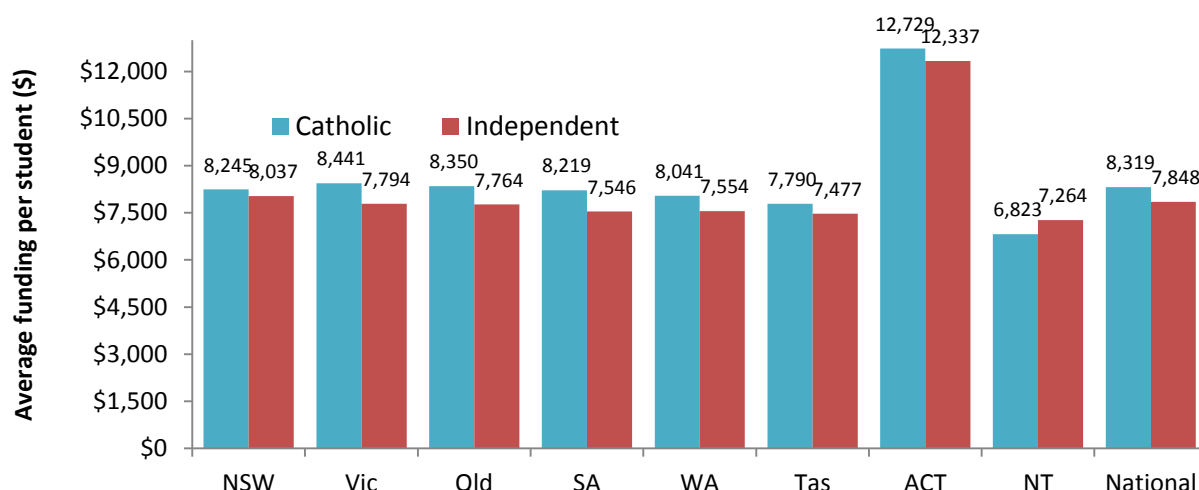


Figure 3: 2017 Commonwealth funding for a student with national average need in the non-government sector and using the average Commonwealth share of the SRS by state and sector.



¹ A threshold of around a cumulative total of \$US 35,000 per student from the ages of 6 to 15

² OECD (2012), "Does Money Buy Strong Performance in PISA?", PISA in Focus, No. 13, OECD Publishing, Paris.

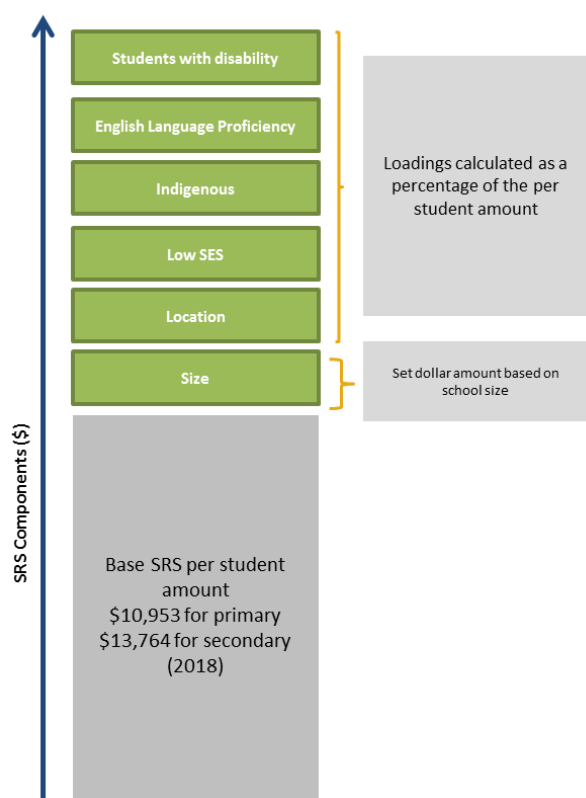
Current arrangements

The Act commenced on 1 January 2014. It is the principal legislation by which the Australian Government provides financial assistance to approved authorities for government and non-government schools.

The Act sets out the SRS that is intended to provide a base per student amount for primary and secondary students, discounted by the capacity of the school community to contribute income for non-government schools (as measured by the school socio-economic status (SES) score). This is supplemented with loadings for Indigenous students, students with a disability, English language proficiency, socio-educational disadvantage, school size and location. Loadings are not discounted by the capacity to contribute.

Some schools are deemed not to have any capacity to contribute (that is, their base amount is not reduced). These are all government schools, non-government special schools and special assistance schools, non-government majority Aboriginal and Torres Strait Islander schools, and non-government sole-provider schools.

Figure 4: Outline of the different components of the Schooling Resource Standard



As Figure 4 shows, the SRS effectively sets a funding benchmark that reflects the needs of individual students and schools and allows a comparison of need between schools, sectors and states.

Implementation of the SRS as set out under the current Act has resulted in distortions in the calculation of the SRS that make it difficult to compare the actual need between schools.

It was envisaged by the 2011 *Review of Funding for Schooling* that the SRS would be met by the combined funding of the Commonwealth and state governments, referred to as 'total public funding'.

For the purposes of determining whether a school is above, on or below the SRS, state funding is an estimate only, as there is currently no mechanism to track state funding and adjust Commonwealth entitlements accordingly.

Only a small number of schools (96 out of 9,390³ in 2017) are currently funded on the basis of the standard because of the transition arrangements set out in the Act. These schools are estimated to receive total public funding that provides 100 per cent of the SRS. Commonwealth funding for these schools is currently indexed at 3.6 per cent each year, in line with the indexation of the SRS base amount.

Under the Act, schools that are not on the standard, receive the same Commonwealth funding as the previous year, indexed by 4.7 per cent for schools that are estimated to receive total public funding below the SRS, and by 3.0 per cent for schools that are estimated to be above the SRS (262 in 2017). These arrangements only apply to non-government schools and the three participating states.

This means that:

- funding provided to the vast majority of schools primarily depends on historic levels of funding
- historic differences in the contribution of Commonwealth funding are effectively locked in to future arrangements
- the schools furthest below the standard receive the same indexation under the Act as those closest to the standard
- during transition, the legislation does not allow funding to adjust to reflect changes in need at a school
- the most overfunded schools still receive a guaranteed 3.0 per cent annual increase in funding.

An illustration of what this means at a school level is outlined in the examples of actual schools below.

Example 1:

In this example, an independent school in Queensland is compared to an independent school in South Australia, both with an SES of 117. The school currently below the SRS, however, receives \$3,817 less funding per student than the similar school above the SRS.

| School currently above the SRS | Similar school below the SRS |
|--|---|
| Independent school in Qld SES – 117 2017 new SRS per student – \$5,164 2017 actual CW funding per student – \$8,030 | Independent school in SA SES – 117 2017 new SRS per student – \$5,478 2017 actual CW funding per student – \$4,213 \$3,817 less per student than school above the SRS |

³ Number of Commonwealth funded schools as at 7 May 2017

Example 2:

In this example, an independent school in the ACT is compared to an independent school in Queensland, with similar SES scores of 119 and 118. The school currently below the SRS, however, receives \$4,098 less funding per student than the similar school above the SRS.

| School currently above the SRS | Similar school below the SRS |
|--|--|
| Independent school in ACT SES – 119 2017 new SRS per student – \$5,126 2017 CW actual funding per student – \$7,998 | Independent school in Qld SES – 118 2017 new SRS per student – \$5,168 2017 CW actual funding student – \$3,900 \$4,098 less per student than school above the SRS |

Example 3:

The Australian Government funds each state government system as a block for all schools in the system. Students in NT government schools have higher need on average than students in WA government schools. In this example, a student with national average need in the government sector will attract more in an NT government school in 2017 than in a WA government school.

| NT government schools | WA government schools |
|---|--|
| 2017 new SRS per student on average – \$26,598 2017 CW funding for a student with national average need for sector – \$3,876 | 2017 new SRS per student on average – \$15,654 2017 CW funding for a student with average need (nationally) – \$2,290 |

Example 4:

The Australian Government funds each state Catholic system as a block for all schools in the system. Students in NT Catholic schools have higher need on average than students in ACT Catholic schools. In this example, a student with national average need in the non-government sector will attract more in an ACT Catholic school in 2017 than in an NT Catholic school.

| ACT Catholic schools | NT Catholic schools |
|---|--|
| 2017 new SRS per student on average – \$6,546 2017 CW funding for a student with national average need for sector – \$12,729 | 2017 new SRS per student on average – \$22,599 2017 CW funding for a student with average need (nationally) – \$6,823 |

The 2013 National Education Reform Agreement (NERA) allows the government and the states to provide additional funding over and above the entitlements under the Act. Under these arrangements, different transition pathways for each state resulted in very different levels of Commonwealth funding for the same levels of need. The 2019 target for total public funding as a proportion of the SRS ranged between 89 per cent and 157 per cent across states and sectors.

States and territories that historically funded their schools at higher levels, for instance Western Australia (WA), received less additional Commonwealth funding compared to states that had not funded their schools as highly.

Only three states (South Australia (SA), New South Wales (NSW) and the Australian Capital Territory (ACT)) signed the NERA and supporting bilateral agreements with the Commonwealth and are therefore considered to be participating under the Act.

Commonwealth shares and transition arrangements

As a result of the different levels of funding provided in each state and the transition arrangements put in place, the share of the current SRS provided by the Commonwealth varies from 13.0 per cent for government schools in WA to 18.3 per cent in Tasmania, with an average of 17.0 per cent for government schools. Only the Northern Territory receives more than 20 per cent under current settings.

For non-government schools, the average share of the current SRS provided by the Commonwealth is 72.7 per cent of the current SRS for Catholic schools and 71.9 per cent for Independent schools, with significant variation between individual independent schools and across different state Catholic systems.

If current arrangements were to continue, including continued investment of all jurisdictions as participating states under the NERA, it is estimated that in 2019 there will be around 5,524 schools still left below the 95 per cent of the SRS (which includes 5,050 government schools), by an average of almost \$458,000 for every school.

This estimate is based on the existing SRS and funding approach, including the inconsistencies in the model and assumes that all states maintained funding growth; however, only three states had signed agreements to do so.

The current Act does not require states to maintain their share of funding. This means that states could adjust their funding for schools near the SRS standard to keep them below the SRS and ensure that they continue to attract the maximum indexation rate for Commonwealth funding.

If current arrangements were to continue, by 2019 it is estimated that there would have been:

- only 116 schools that had managed to reach 100 per cent of the Schooling Resource Standard, with 9,018 schools still being funded below
- 5,524 schools still left below the funding target of 95 per cent of the Schooling Resource Standard by 2019, underfunded by an average of almost \$458,000 for every school
- around 256 schools receiving more than the full Schooling Resource Standard by an average of \$1.2 million

By 2027, 6,966 schools would still have been below the full Schooling Resource Standard by an average of approximately \$690,000.

Funding inequities

In addition to the different starting points and different transition arrangements, there are a number of distortions in the funding arrangements that contribute to the inequities both between states, within sectors and between individual schools.

The WA loading

WA schools were provided with an additional 11 per cent of the SRS calculation but still receive the lowest per student funding of any state.

Capacity to contribute discount for primary schools

The base amount for non-government schools is reduced by a percentage determined by the 'capacity to contribute' of school communities to contribute financially to their school's operating costs (which is measured using the SES score of the school).

The maximum reduction is 80 per cent of the base amount for schools with an SES score of 125 and above. The minimum reduction is 10 per cent of the base amount for schools with an SES score of 93 and below.

For secondary schools, the capacity to contribute is a 'straight line' between SES scores of 93 and 125. For primary schools, the current line is curved and as a result, for schools with SES scores between 108 and 122, a primary student receives a higher base amount than an identical secondary student, despite the costs of secondary schooling being higher.

System weighted SES scores for non-government systems

The capacity to contribute for some non-government systems is currently calculated using the average SES score for the system which is then applied to each school within the system. The use of 'system weighted' average SES scores masks the need of individual schools:

- Schools with most need will have a higher SES applied than their individual school SES and will therefore attract a notional allocation of less funding
- More affluent schools will have a lower SES applied than their individual school SES and will therefore attract higher notional levels of funding.

Overall, systems that have opted into these arrangements receive greater levels of funding compared to similar non-systemic schools.

Schools in the ACT Catholic system have the national weighted average SES of 101 applied rather than the state weighted average of 116. This means that instead of a capacity to contribute discount of 42.6 per cent for primary schools and 60.3 for secondary schools applied to its SRS base amount, the discount applied to ACT schools is only 13.5 per cent for primary schools and 27.5 per cent for secondary schools.

These arrangements have collectively resulted in poor targeting of available funding to need and significant distortions between systemic and non-systemic non-government schools with the same need. This is illustrated in the following examples of schools that have similar SES scores and SRS calculations.

Example 1:

In this example, two non-government schools in NSW are compared. The first is a systemic school and the second is non-systemic. Both have an assessed SES of 121. The systemic school, however, has a system-weighted SES score of 101 applied in determining its notional funding entitlement. The systemic school receives a notional allocation of \$3,854 more per student than the non-systemic school.

| Systemic school | Non-systemic similar school |
|--|---|
| Non-government systemic school in NSW SES – 121 (but given system average of 101) 2017 new SRS per student – \$5,728 2017 CW actual funding per student – \$7,262 | Non-government non-systemic school in NSW SES – 121 2017 new SRS per student – \$5,636 2017 CW actual funding per student – \$3,408 \$3,854 less per student than the systemic school |

Example 2:

In this example, two non-government schools in Queensland are compared. The first is a systemic school and the second is non-systemic. Both have an assessed SES of 103. The systemic school, however, has a system-weighted SES score of 101 applied in determining its notional funding entitlement. The systemic school receives a notional allocation of \$3,593 more per student than the non-systemic school.

| Systemic school | Non-systemic similar school |
|--|--|
| Non-government systemic school in Qld SES – 103 (but given system average of 101) 2017 new SRS per student – \$11,319 2017 CW actual funding per student – \$11,518 | Non-government non-systemic school in Qld SES – 103 2017 new SRS per student – \$11,442 2017 CW actual funding per student – \$7,925 \$3,593 less per student than the systemic school |

Example 3:

In this example, two non-government schools in the ACT are compared. The first is a systemic school and the second is non-systemic. The schools have similar SES scores of 118 and 119. The systemic school, however, has a notional average system-weighted SES score of 101 applied in determining its funding entitlement. The systemic school receives a notional allocation of \$3,559 more per student than the non-systemic school.

| Systemic school | Non-systemic similar school |
|--|---|
| Non-government systemic school in ACT SES – 118 (but given national average of 101) 2017 new SRS per student – \$6,933 2017 CW actual funding per student – \$9,048 | Non-government non-systemic school in ACT SES – 119 2017 new SRS per student – \$7,137 2017 CW actual funding per student – \$5,489 \$3,559 less per student than the systemic school |

Example 4:

In this example, two low SES non-government schools in NSW are compared. The first is a systemic school and the second is non-systemic. Both have an assessed SES of 94. The systemic school, however, has a system-weighted SES score of 101 applied in determining its notional funding entitlement. The non-systemic school receives a notional allocation of \$1,067 more per student than the systemic school.

| Systemic school | Non-systemic similar school |
|--|---|
| Non-government systemic school in NSW SES – 94 (but given system average of 101) 2017 new SRS per student – \$12,281 2017 CW actual funding per student – \$7,566 | Non-government non-systemic school in NSW SES – 94 2017 new SRS per student – \$12,407 2017 CW actual funding per student – \$8,645 \$1,067 more per student than the systemic school |

Improvements to the calculation of Commonwealth funding

The new arrangements will continue to use the SRS as the basis of determining levels of need for the calculation of Commonwealth funding with the following adjustments to update with the most recent data, and better target need.

Base amount has been updated with latest data

The Bill provides an updated amount per student, based on the efficient costs of educating a child at a set of high performing schools. The methodology to calculate the base amount was commissioned by the 2011 *Review of Funding for Schooling* (Allen Consulting Group 2013, *Schooling Resource Standard: 2011 update*).

For 2018, the base per student amounts for primary and secondary schools have been re-calculated on the same methodology with the latest available data (2015 *My School* financial data and 2013-2015 NAPLAN data).

The 2018 base SRS amounts are amended in section 34 of the Act to:

- \$10,953 for primary students and
- \$13,764 for secondary students.

Indexation of the SRS base amount better reflects changing costs

Clause 11A of the Bill provides for the indexation factor to be applied to SRS funding amounts for a year. New subclauses 11A(5) and (6) further enable regulations to prescribe the indexation.

For 2018, 2019 and 2020 it is intended that the SRS indexation factor will be set through regulation at 3.56 per cent to give effect to the Government's 2016-17 Budget commitment to index funding at 3.56 per cent from 2018 to 2020.

From 2021, indexation will be calculated under the Act. Indexation of the SRS base amount will be whichever is the higher of three per cent or a floating indexation rate based on economy wide measures.

The floating indexation rate will be based on 75 per cent Wage Price Index (WPI) and 25 per cent Consumer Price Index (CPI), as historical school education expenditure shows that wages comprise approximately 80 per cent of government schools operating costs and 70-74 per cent of non-government schools operating costs. From 2021 the indexation rate will be updated annually based on the latest indicators.

SES scores will be calculated based on the circumstances of individual schools

A school's SES score is calculated using student residential addresses and a socio-economic index based on the latest available Census data from the Australian Bureau of Statistics (ABS). The SES funding model came into operation in 2001. The current SES scores were calculated in 2013 using student residential addresses collected by the department in 2012 and data from the 2011 ABS census. They have been applied to Government recurrent funding arrangements for schools since the current funding arrangements were introduced on 1 January 2014.

Under the new arrangements, SES scores will be calculated based on the circumstances of individual schools, removing the system-weighted SES scores that mean systemic non-government schools attract different notional levels of funding than individual non-government schools with similar socio-economic circumstances and need.

Systems, including state governments and Catholic systems and other non-government systems, will be provided with total funding for all member schools and will still be able to redistribute funding provided by the Commonwealth in the same way they are currently able to, according to their own needs based funding models that meet the requirements set out in legislation.

Distortions in the capacity to contribute calculations will be removed

The Bill modifies the current capacity to contribute curve for primary students to avoid the base amount (after the capacity to contribute has been applied) for primary students exceeding that for secondary students.

Students with disability loading will be better targeted to need

While there is broad support for the concept of a loading for students with disability, the current settings are not targeted to need and are based on eligibility that is inconsistent between states.

The current loading provides a flat rate for students with disability attending mainstream schools calculated at 186 per cent of the base per student amount, 223 per cent for students with disability attending special schools. The single flat loading does not reflect the range of costs associated with providing adjustments to students with disability in a school. This means the loading can dramatically over-compensate students that require lower levels of adjustment and may be inadequate for students with greater need.

In 2017, a student eligible for the loading that requires only a small adjustment in the classroom, would attract up to \$25,000 – the same as a student with extensive needs.

Funding for students with disability is currently provided to students that are eligible for state government support in the state in which they live. Each state has a different definition of disability which means a student with the same disability can attract Commonwealth funding in one state but not another. State definitions are nearly exclusively based on medical diagnosis, which excluded a significant cohort of students who are provided adjustments within schools and at a cost.

The 2011 *Review of Funding for Schooling* recommended a disability loading based on a national definition and scaled for different levels of adjustment to better reflect need.

The Nationally Consistent Collection of Data on School Students with Disability (NCCD) now provides numbers of students that require different levels of assistance to support their access and participation in learning.

From 2018, there will be a differentiated loading for the top three NCCD levels as set out in the following table. New subclauses 36(2), (3) and (4) set out these adjustments, being supplementary, substantial and extensive to better reflect the costs of providing the level of educational assistance.

Table 2: SWD loadings for supplementary, substantial and extensive levels of adjustment

| | Supplementary | Substantial | Extensive |
|------------------|---------------|-------------|-----------|
| Primary | 42% | 146% | 312% |
| Secondary | 33% | 116% | 248% |

Students who need more extensive assistance will receive a much higher loading than those who need less extensive adjustment, which will be higher again than those who need supplementary assistance.

Regulations will specify the classification of students at each of these levels of adjustment, which will be based upon the NCCD. Further to this, regulations will specify the loading percentage which attracts to each level of adjustment, replicating the current approach to setting the student with disability loading percentage by regulation. The government is currently consulting with stakeholders on the detail of the regulation.

Commonwealth funding shares will be consistent

Under the new arrangements, the Commonwealth's funding entitlement for schools will be based on new consistent Commonwealth shares of the SRS. These new shares will be:

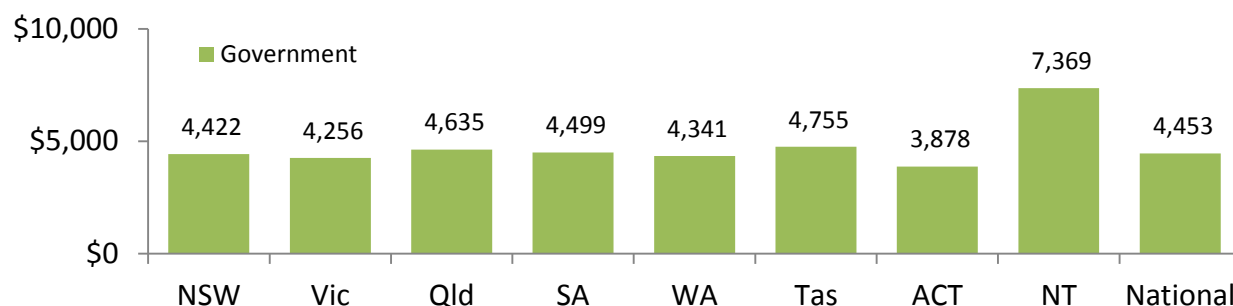
- 20 per cent for government schools (up from the current average of 17 per cent), reflecting the constitutional responsibility of states as the majority public funder of government schools, and
- 80 per cent for non-government schools (up from the current average of 77 per cent for non-government schools), reflecting the Commonwealth's role as the majority public funder of non-government schools.

All schools will transition to these new shares over the next ten years, from 2018 to 2027. In 2027, students with same need in similar schools will receive the same Commonwealth funding based on need and regardless of which state they are in or which part of the non-government sector they are in.

From 2027, funding will only vary with need and not historical arrangements. Figures 6 and 7 show the different levels of funding applying these shares and reflecting the differences in need between states as measured by the average per student SRS for each state.

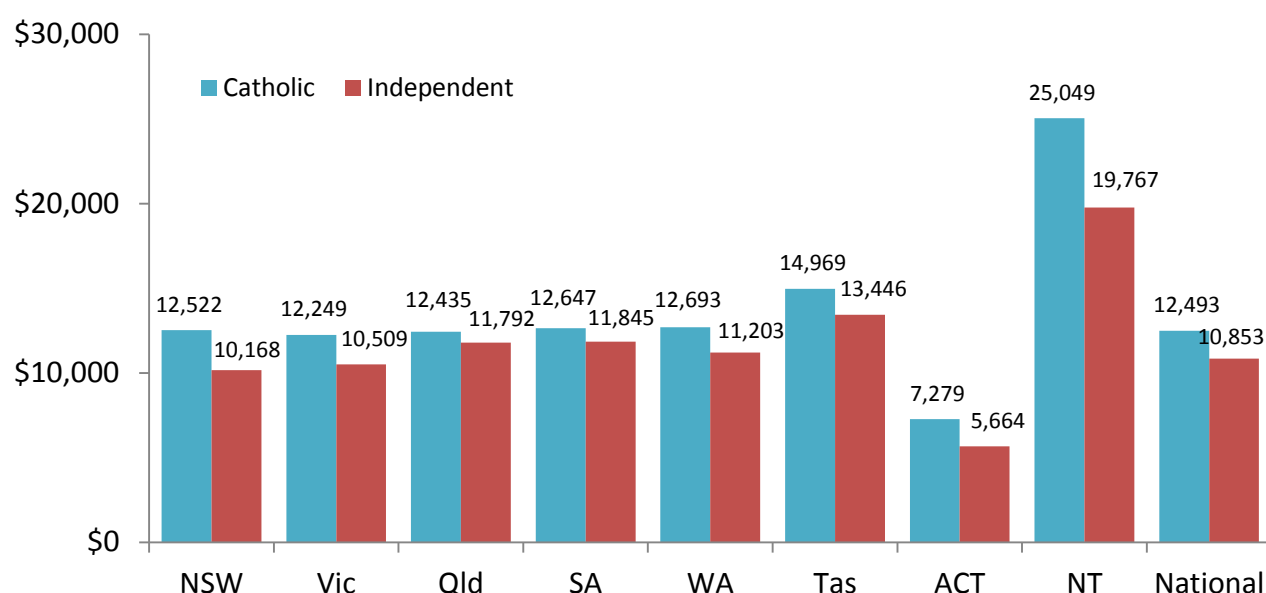
In 2027, average per student Commonwealth funding for government schools, in receipt of 20 per cent of their needs-based SRS, will vary from an estimated \$3,878 in the ACT to \$7,369 in the NT (refer to Figure 6).

Figure 6: Average 2027 per student Commonwealth funding for government schools by state.



In 2027, average per student Commonwealth funding for non-government schools, in receipt of 80 per cent of their needs-based SRS, will vary from an estimated \$5,664 in the ACT independent sector to \$25,049 in the NT catholic sector (refer to Figure 7).

Figure 7: Average 2027 per student Commonwealth funding for non-government schools by state.



Transition to new arrangements

Funding entitlements for each school during the ten year transition will be calculated based on the starting Commonwealth share moving to the final Commonwealth share in 10 equal steps.

To calculate the funding entitlement for a school each year, a 'starting Commonwealth share' will be set based on actual recurrent funding paid to the school in 2017 under existing arrangements and what this amount is as a percentage of the 2017 SRS as calculated under the new settings.

This 'starting Commonwealth share' is then adjusted in 10 equal annual steps until the 'final Commonwealth share' is reached in 2027. The final Commonwealth share is 20 per cent of the SRS for government schools or 80 per cent of the SRS for non-government schools.

Proposed amendments to the Act will set out the arrangements for a transitioning school each year from 2018 to 2027.

Example 1: A hypothetical non-government school, currently below the 80 per cent share of the SRS:

- 2017 total recurrent funding for a non-government school's approved authority in 2017 is \$7,000,000.
- The 2017 SRS for that authority under the new settings is calculated to be \$10,000,000.
- The school's 'starting Commonwealth share' is \$7,000,000 divided by \$10,000,000, expressed as a percentage – or 70 per cent.
- The school's 'final Commonwealth share' is 80 per cent.
- The Commonwealth share for each year will be set based on 10 equal steps between the starting and final Commonwealth share as follows.

| 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------|------|------|------|------|------|------|------|------|------|------|
| 70% | 71% | 72% | 73% | 74% | 75% | 76% | 77% | 78% | 79% | 80% |

- Funding each year will be determined by the Commonwealth share for each year, multiplied by the school's SRS each year, which is calculated based on enrolment and student characteristic information provided through the Census each year.

Example 2: A hypothetical government school, currently below the 20 per cent share of the SRS:

- 2017 total recurrent funding for a government school's approved authority in 2017 is \$1,800,000.
- The 2017 SRS for that authority under the new settings is calculated to be \$10,000,000.
- The school's 'starting Commonwealth share' is \$1,800,000 divided by \$10,000,000, expressed as a percentage – or 18 per cent.
- The school's 'final Commonwealth share' is 20 per cent.
- The Commonwealth share for each year will be set based on 10 equal steps between the starting and final Commonwealth share as follows.

| 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|------|-------|-------|-------|-------|------|-------|-------|-------|-------|------|
| 18% | 18.2% | 18.4% | 18.6% | 18.8% | 19% | 19.2% | 19.4% | 19.6% | 19.8% | 20% |

- Funding each year will be determined by the Commonwealth share for each year, multiplied by the school's SRS each year, which is calculated based on enrolment and student characteristic information provided through the Census each year.

Impact of new arrangements on schools

As the Commonwealth increases its share of the SRS over the next ten years, overall funding will grow over and above enrolment growth and indexation.

As shown in Figure 8 below, average funding for all sectors nationally grows strongly each year, well above CPI and wages costs. It is estimated that over 2018 to 2021, the Commonwealth will be providing \$4.4 billion more than if funding just grew in line with movements in CPI, and \$27.0 billion more over 2018 to 2027. Figure 9 shows that funding for the Catholic sector grows in all states and territories except the ACT.

Figure 8: shows the average annual per student funding growth for each sector, 2017 to 2027.

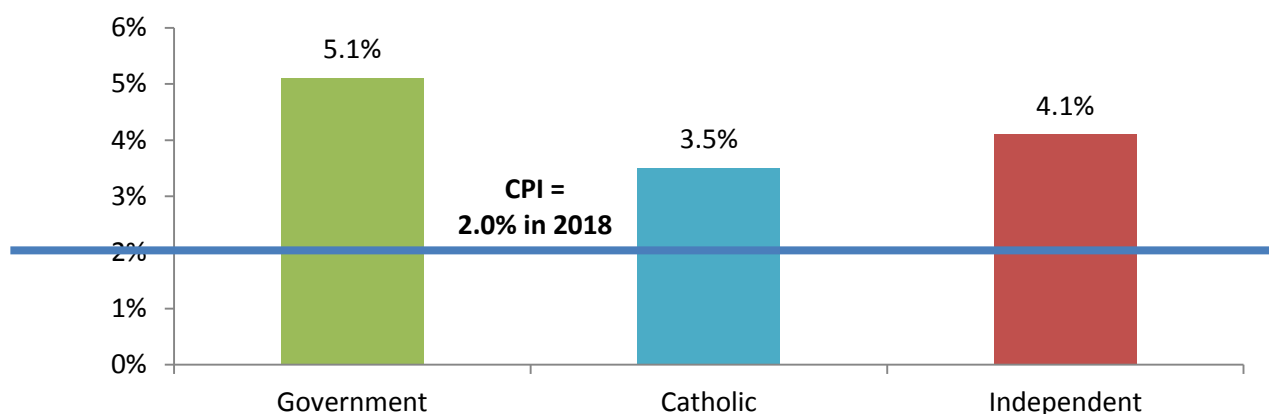
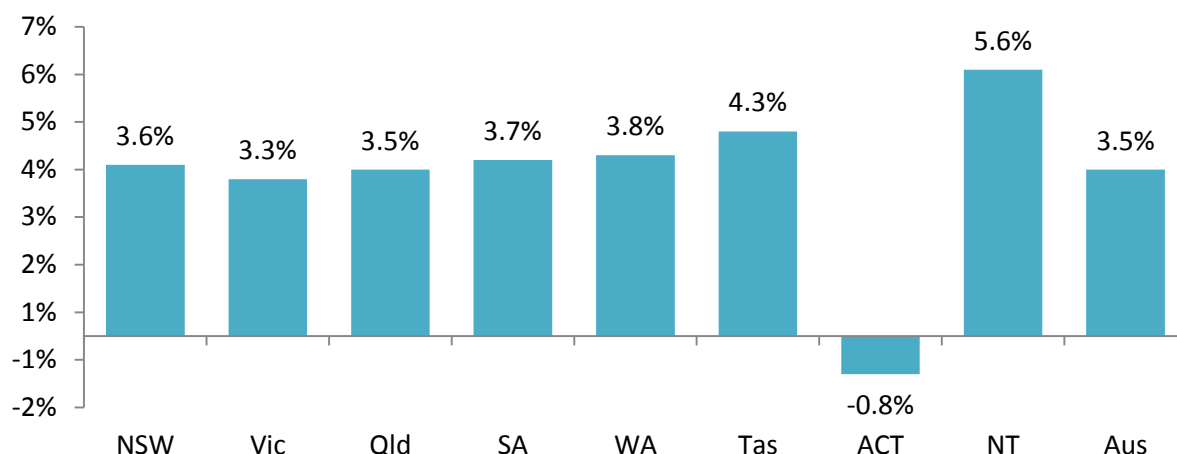


Figure 9: Average annual per student funding growth for the Catholic systems in each state, 2017 to 2027



As shown in Figures 10 and 11, at a national level, per student Commonwealth funding will grow from an average of \$2,720 for government schools in 2017 to an average of \$4,453 per student in 2027.

For Catholic schools, the average per student funding will grow from \$8,839 in 2017 to \$12,493. For independent schools, the average per student funding will grow from \$7,263 in 2017 to \$10,853 in 2027.

Figure 10: National average per student funding in 2017 by sector.

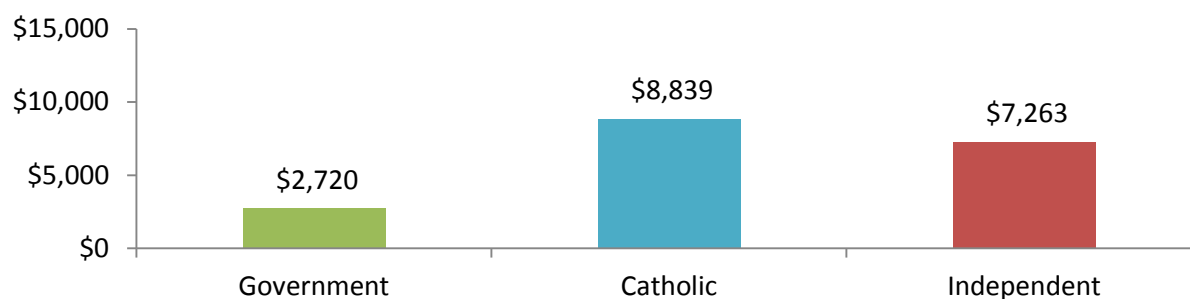
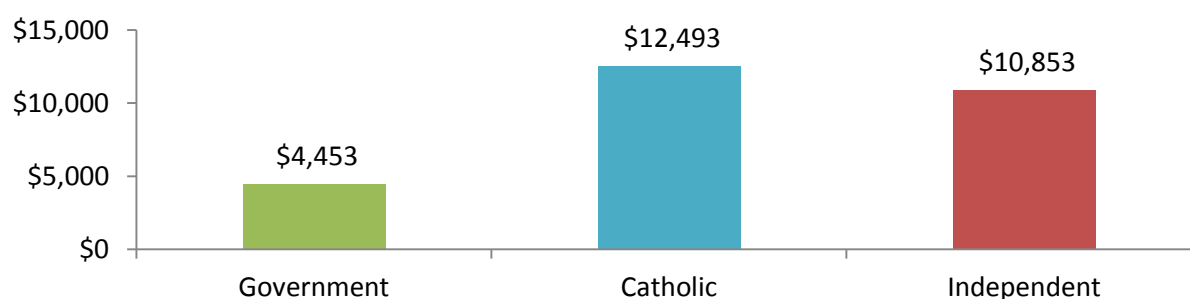
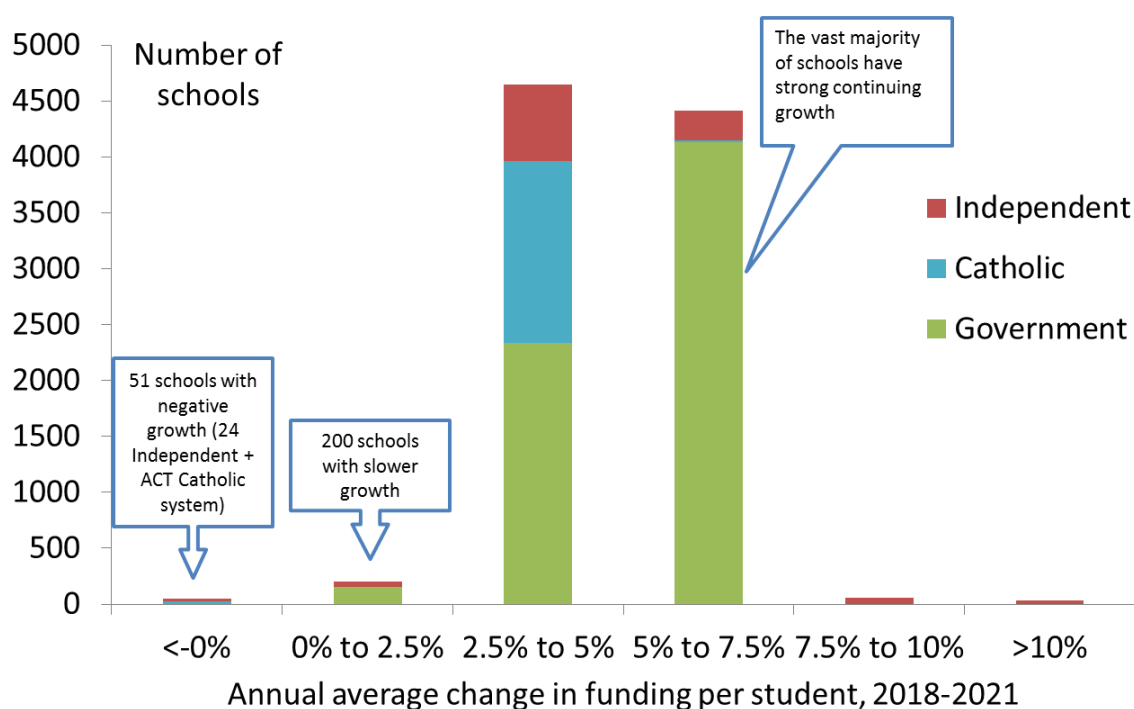


Figure 11: National average per student funding in 2027 by sector.



Under this model, funding per student for all sectors will continue to increase in real terms and the vast majority of schools will see strong growth in funding, as indicated in Figure 12. The schools that are the furthest behind will receive the fastest increase in funding and funding for government schools will grow more quickly than for non-government schools.

Figure 12: Annual average change in funding per student, 2018-2021



Only 347 schools out of over 9,000 are expected to start the transition above the new Commonwealth share of 80 per cent of the SRS for non-government schools or 20 per cent for government schools.

These schools will therefore see a downward transition in the Commonwealth share. However, the vast majority of these will still experience positive growth in funding, but growing at a slower rate than indexation. Less than one per cent of schools are expected to see funding reductions over the next four years.

The Government has established a \$39.8 million adjustment assistance fund for disadvantaged and vulnerable schools that may find it unreasonably hard to adjust to a reduction of funding and for the ACT Catholic system. Adjustment assistance will be temporary, targeted, and provided on a case by case basis according to criteria set out in guidelines. The ACT Catholic system will have their 2017 funding entitlement maintained for four years until 2021. The government is currently consulting with stakeholders on the eligibility criteria.

Over 2018 to 2021, NT government schools will have the slowest growth within the government sector. To assist the Territory, an additional \$35.6 million will be provided to accelerate evidence-based reforms to improve student outcomes for some of our most vulnerable children.

Conditions of funding

Maintenance of funding effort for states

The Bill introduces a requirement for states to maintain their real per student funding levels as a condition of Commonwealth funding.

According to the Productivity Commission's *Report on Government Services* in 2017, from 2005-06 to 2014-15, funding from the Australian Government increased in real per student terms by 72.4 per cent for government schools and 25.7 per cent for non-government schools. In contrast, states and territories have increased funding over the same period by 9.4 per cent to their own government schools and by 10.6 per cent to non-government schools.

From 2013-14 to 2014-15, funding for government schools from the Australian Government rose by 8.4 per cent while states and territories increased their own funding by 2.3 per cent.

As detailed in the Bill, section 22A, introduces a requirement on states where total public funding is below the SRS to at least maintain funding at the percentage of the SRS represented by state funding allocations in 2017 (calculated using the new model settings applied to 2017).

These arrangements will be set out in the Regulation and are subject to consultation with states and territories. It is proposed that maintenance of effort be measured as a proportion of per student SRS. Where total public funding (including Commonwealth and state funding) is above the SRS amount, the state is not required to maintain funding above the standard, but must maintain funding at least at the standard.

If a state or territory fails to meet the requirements set out in the Regulation then standard compliance processes that already existing under the Act may apply. Part 8 (section 110 Actions the Minister may take) of the Act allows the Minister to:

- determine (in writing) that the amount of financial assistance payable to the state or territory is reduced by a specified amount
- delay making a payment (or part of one) to a state or territory until the non-compliance, breach or failure is rectified.

Reforms to drive improved outcomes for students

In addition to changes to the school funding model, the Bill seeks to strengthen the link between Commonwealth financial assistance and the implementation of evidence based reforms to improve student outcomes. The Government has been clear that the delivery of reforms will be a condition of funding for states.

To support this increased reform effort, the Government has established a Review to Achieve Educational Excellence in Australian Schools which will be led by Mr David Gonski AC, to provide advice on how the extra Commonwealth funding should be invested to improve Australian schools' performance, and grow student achievement.

The Review will contribute to the evidence base needed to ensure funding on the ground is used in ways that make a difference to student outcomes. The Review will focus on practical measures that work, from Australia and around the world, to improve results for Australia's children.

The Bill requires that states and territories agree to a new national agreement to receive Commonwealth funding. This new agreement will be informed by the recommendations of the Review and set out a shared vision for the development and learning of young Australians and reinforce the importance of progressing evidence based reforms that improve student outcomes.

From 1 July 2018, states will be required to be a party to a new national agreement on school education. It is intended that this agreement will set out evidence based reforms for national implementation and a revised national performance framework.

The Regulation will also specify that states must each have agreed and signed a bilateral reform plan with the Commonwealth by 30 June 2018. These will set out reforms to be implemented by the state or territory, including actions and milestones for delivery of reforms in both government and non-government schools.

Reporting requirements for these bilateral reform plans will also be set out in the Regulation. This will consist of an annual report to the Commonwealth against the milestones and actions in the bilateral agreement verified by the relevant State Auditor-General or another agreed independent third party.

In addition to the changes above, a new requirement for states to consult with Aboriginal and Torres Strait Islander communities on any reforms that particularly affect them will be added to the regulations. In addition, references to the Aboriginal and Torres Strait Islander Education Action Plan 2010-2014 will be updated to reflect the current plan, the Aboriginal and Torres Strait Islander Strategy 2015.

In May 2017 the Education Council of the Council of Australian Governments (COAG) considered funding and reform principles to guide collaborative work that will drive improved student outcomes and position First Ministers to enter into a new national agreement on schooling by June 2018.

Under section 77 of the Act, approved authorities for non-government schools will also be required to cooperate with states to implement national policy initiatives set out in regulation and the national agreements specified in regulation.

Miscellaneous and technical amendments

There are a number of consequential and technical changes required to the Act. These changes will reduce the level of Commonwealth red tape over the way schools are operated and the way funding is used by education authorities.

Implementing and administering the Act since 2014 has also shown some aspects to be ambiguous, unnecessary or otherwise administratively cumbersome so minor amendments are being made to address this.

Regulations

Consultations on the Regulation are currently being undertaken with key stakeholders. Much of the existing Regulation will remain unchanged or only require minor consequential amendments (for instance the removal of the 'participating' distinction). This includes the basic approval requirement for authorities and bodies and the detail of most loadings.

Delay in passage of amendments

Passage of the Bill in the first half of the Spring sittings is desirable to ensure that new arrangements with respect to school funding can be implemented, with adequate notice to the sector, for the 2018 school year.

If the Bill is not passed in 2017, the current provisions in the Act will remain in force. This will mean that the distinction between 'participants' and 'non-participants' will remain along with the inconsistent arrangements currently used to calculate recurrent funding.

Current legislated indexation arrangements for non-government schools and participating states (New South Wales, South Australia and the Australian Capital Territory) will apply. Funding for other states would need to fit within the remaining available funding envelope.