NSRB REVIEW OF SRS INDEXATION ARRANGEMENTS ISSUES PAPER – ISA SUBMISSION

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1. ABOUT ISA

Independent Schools Australia (ISA) is the national peak body representing the Independent school sector. Working with the eight state and territory Associations of Independent Schools (AISs), ISA's major role is to represent the sector on national issues and bring the unique needs of Independent schools to the attention of the Australian Government and community.

Nationally, 688,638 students attend 1,209 Independent schools, and the latest available data shows that one in six Australian school students attends an Independent school and over one in five secondary students attends an Independent school. These schools employ around 115,000 people.

Independent schools are a diverse group and serve a wide range of communities. The median fee for an Independent school in 2021 was around $5,300, and the majority of Independent schools charge fees in the range of $3,000 – $5,500.

Most families with children enrolled in non-government schools are middle-to-low-income earners, increasingly from culturally diverse backgrounds, and residing in outer-suburban and inner-suburban communities. Many of these families are currently facing economic stress and are making substantial sacrifices for their children's education.

Independent schools are long-established partners in Australia's education system, alongside government and Catholic schools. They make a valuable contribution to society and the learning and wellbeing of Australian children.

Many Independent schools provide a religious or values-based education. Others promote a specific educational philosophy or interpretation of mainstream education. Many Independent schools have been established by community groups seeking to meet particular needs or to reflect the religious values of a community. Independent Catholic schools are a significant part of the sector, accounting for eight per cent of the Independent sector's enrolments.

Most Independent schools are set up and governed independently on an individual school basis. However, some Independent schools with common aims and educational philosophies are governed and administered as systems, for example, Lutheran schools. Systemic schools account for 20 per cent of schools in the Independent sector. Four out of five schools in the sector are autonomous non-systemic schools.

2. KEY POINTS

— ISA views the current indexation arrangements as both transparent and fit-for-purpose.

— Funding stability and predictability are key concerns for Independent schools.

— Indexation needs to be responsive to movements in the cost of goods and services, and salaries.

— The inclusion of the 3% floor is a critical safeguard for Independent schools.

— Bringing indexation forward could assist schools in both their financial planning and in meeting their funding acquittals responsibilities.

3. THE IMPORTANCE OF STABILITY AND PREDICTABILITY

Non-government schools' ability to budget and strategically plan must be based on sound assumptions regarding future school funding. This is a key component in ensuring schools remain well-managed, sustainable and financially viable.

The current Schooling Resource Standard (SRS) funding model, and the associated Capacity to Contribute methodology for calculating base funding, is a complex model that is far more responsive to change than previous models. While this is in many ways viewed as a positive, it has had the unintended side effect of making it extremely difficult for schools to estimate future funding and plan accordingly.

Having predictable and stable indexation arrangements means there is one less highly variable factor that schools need to account for in budgeting and financial planning.

4. INDEXATION FOR NON-GOVERNMENT SCHOOLS

From 1993 until 2014, Australian Government recurrent grants to non-government schools were adjusted by a mechanism referred to as year-on-year movements in Average Government Schools Recurrent Costs (AGSRC). Essentially, the AGSRC was determined from states' expenditure on schooling, net of Commonwealth outlays on government schooling and some other adjustments made by the Australian Government Department of Education.

During this period, indexation rates were high compared to the current composite index, running on average at 5.7% for primary and 5.3% for secondary, however there was also a significant amount of annual variation year-to-year.

Table 1: AGSRC Index 2000 to 2013 (SES Funding Model)

	PRIMARY AGSRC	SECONDARY AGSRC
2000	8.2%	5.2%
2001	6.4%	7.2%
2002	5.2%	5.2%
2003	7.1%	7.4%
2004	8.7%	7.2%
2005	3.1%	4.6%
2006	6.3%	3.6%
2007	5.5%	4.3%
2008	5.6%	3.5%
2009	4.2%	5.8%
2010	8.2%	7.0%
2011	6.9%	4.8%
2012	3.7%	4.2%
2013	3.5%	4.7%
AVERAGE	5.7%	5.3%

With the implementation of the SRS Funding Model, AGSRC ceased being used to index Australian Government funding to non-government schools.

The SRS Funding Model was the first funding model to include both government and non-government schools as well as set funding amounts for both the Australian Government and state and territory funding contributions.

When the SRS Funding model was introduced, there was significant variance between the indexation that had been provided by the Australian Government for its school funding, and the indexation arrangements for school funding in the states and territories. While it was estimated that from 2014 Australian Government funding would increase at 4.7% based on estimated 10-year rolling averages of state and Australian Government expenditure on all schools from all sources, this was not the case for state and territory funding. All states and territories had to increase their indexation rates over 2014 and 2015 to reach 3% in 2016.

The indexation rate for the SRS itself was set at 3.6% based on a 5-year forward estimate to reflect the estimated increases in the costs of all schools from all sources.[1]

5. APPROPRIATENESS OF THE CURRENT INDEXATION ARRANGEMENTS

While the Issues Paper queries whether the operation of the indexation arrangements since 2019 has kept pace with schooling price-related cost increases, there is very little data available from which to

[1] Senate Standing Committee on Education Employment and Workplace Relations, Questions on Notice, Budget Estimates 2013-2014, DEEWR Question No. EW0002_14

draw any conclusions. Further, most of those years were heavily impacted by the COVID-19 pandemic.

Many schools did not increase school fees in 2020 and 2021 in addition to many delaying payment of school fees and providing bursaries for impacted students and families. Schools also incurred additional COVID-related costs such as cleaning expenses, buying personal protective equipment, rapid antigen tests and infrastructure costs such as the purchase of air purifiers.

Many schools in states with lockdowns struggled with staffing as teachers and principals left the profession citing exhaustion and burnout from the delivery of remote learning, and others left due to the vaccine mandates imposed on school staff. Schools were required to pay out all of the entitlements for these staff, creating a large and un-budgeted for cost for many schools. Some schools received JobKeeper payments during this period and others did not.

Discussion questions:

— Are data sources available on the breakdown of non-salary operating expenses for schools?

The main source of data for financial information for non-government schools is the Department of Education Financial Questionnaire. However, the categories are limited.

While there is some expense data from the audited financial statements of non-government schools on the ACNC website, there is no guarantee of consistency of categorization and terminology used.

Further, when utilising audited financial statements, it is challenging to separate school and non-school financial activities. This separation may lead to measurement discrepancies, as these two categories are not directly comparable.

— What are the most substantial non-salary operating inputs?

According to the 2021 FQ, excluding staffing and salary costs, the main costs were 47% operating costs, 24% depreciation and 18% maintenance of building and grounds.

6. SUITABILITY OF THE CURRENT INDEXATION FLOOR

Discussion questions:

— How are the trade-offs between funding certainty and funding accuracy perceived?

As noted above, initially the indexation rate for the SRS Funding model was set at 3.6% through to 2020. This approach provided funding certainty for schools as the funding they received included actual indexation from the start of the year.

In the three years since the introduction of the use of either the 3% floor or the composite index, the 3% floor has only been used once, in 2021. As a result, there is very little data from which to assess the indexation methodology. Further complicating any assessment of the methodology, the most recent data was collected during and immediately following the COVID-19 pandemic, complicating year-on-year comparisons.

It is clear however that the protective value of the floor served its intended purpose for schools when it was applied during 2021, affording some certainty when setting budgets during an uncertain period.

Aside from 2021, since 2019 the composite indexation rate, including the preliminary estimated rate for 2024 that has been applied to school funding, has ranged from 3.5% to 4.2%.

2019	2020	2021	2022	2023	2024 (PRELIMINARY)
3.6%	3.6%	3%	3.5%	4.2%	3.9%

— Have perspectives about the rationale for an indexation floor changed over time?

No, the perspective has not changed. ISA considers the implementation of a 3% funding floor a necessary safeguard for all schools and particularly for non-systemic schools. This floor ensures that funding remains adaptable to the independently varying costs of running a school, such as salaries, utilities, and educational resources. It is understood that these expenses may increase at rates not necessarily reflected by broader economic indicators, necessitating this protective mechanism.

— Is the current indexation floor of 3 per cent appropriate? Should it change?

ISA does not see any reason to adjust the current indexation floor.

7. STRUCTURE AND WEIGHTING OF THE COMPOSITE INDEX

Discussion questions:

— Are there any other data inputs that should be considered for the composite index?

The Consumer Price Index (CPI) and Wage Price Index (WPI) are clear, easily understood and are calculated and published on a consistent basis. The proportions of the composite index are viewed as appropriate and reflective of the costs borne by schools and the fact that approximately 75% of operating costs for schools are salary costs.

In relation to CPI categories likely to be related to schooling costs, the Issues Paper states that "over the analysis period, growth in the CPI tended to outpace growth in CPI categories likely to be related to schooling (including newspapers, books and stationary, utilities, audio, visual and computing equipment and services and insurance and financial services)".

While insurance costs across all industries have increased at a steady rate, insurance costs for schools have jumped significantly, as a result of recent developments around child safety and historical child abuse. Other school-related costs that have and are increasing rapidly include repairs and maintenance, ICT and cybersecurity costs, staff professional development and compliance training.

In looking at other possible data inputs, there has been some consideration within the sector about the use of the education component of the CPI, as opposed to the combined CPI of all components, to better reflect education-related operating costs. As the education component of the CPI includes pre-school, primary, secondary and tertiary education, both government and non-government and is more reflective of the cost of those education services to consumers, rather than the actual cost of provision, it is not clear if its use would be more accurate in determining operating costs for schools.

— To what extent does the SRS indexation rate, or expectations regarding future rates of indexation, inform or influence government policy decisions regarding input prices? For example, are agreed wage increases negotiated through Enterprise Bargaining Agreements (EBAs) set with regard to the SRS indexation rate?

In the non-government school sector, wage increases in EBAs are far more likely to reflect wage increases in EBAs set by the government system than any relationship to the SRS indexation rate. ISA believes that currently those wage increases are driven far more by the national teacher shortage than they are by any other factor.

Recent wage agreements in the government school sector have incorporated large increases in teacher salaries that Independent schools will need to match or exceed to attract and maintain staff.

These include:

- The ACT Government enterprise bargaining agreement has resulted in an average 5.5 per cent pay increase across all teacher and school leader classifications, with the largest increases targeting early to mid-career teachers.[2]
- The NSW Government has provided a one-year staffing increase of 8-10%, significantly boosting teacher salaries at all levels.[3]
- The Queensland Government provided a 4% increase in 2022 with a cost-of-living adjustment of up to 3 per cent a year to match inflation.[4]
- The Victorian Government's recent EBA provided 2% per year over the next four years with a reduction in teacher workload.[5]

8. TIMING OF SRS INDEXATION RATES

Discussion questions:

- **To what extent is it important that funding payments respond quickly to estimates of changes to input prices?**

Each school's final funding entitlement in a given year is based ultimately on the year's CPI and WPI data. The timing of the release of the WPI in August means that the funding adjustment in October for non-government schools and December for government schools, results in payment being made to schools at the end of the year for costs they have already borne.

This can pose challenges for schools, as:

1) Schools are required to expend or commit government funding in the calendar year.

2) They also incur 75% of expenditure on salaries – which is a semi-fixed cost and cannot be quickly or easily varied through the year.

As schools do not receive final funding allocation confirmation until late in the year, they must make late decisions about how to use any additional funds. Given that a conservative approach to budgeting would mean that schools should assume lower, rather than higher indexation in formulating their budgets, a significant variation between preliminary and actual indexation can impact schools.

- **How much lead time after final indexation is known do schools and systems feel is needed to support effective budget planning and resource allocation?**

There is no lead time as the adjustment is implemented as soon as the final indexation rate is known.

- **For government school systems, how is budget planning affected in cases where final monthly payments in December account for large differences in projected vs. actual indexation?**

[2] https://the-riotact.com/largest-pay-offer-for-act-public-teachers-in-two-decades-with-top-salary-reaching-nearly-130k/658544

[3] https://www.abc.net.au/news/2023-09-09/nsw-teacher-deal-accepted-by-union-/102835656

[4] https://www.brisbanetimes.com.au/national/queensland/queensland-banking-on-pay-deal-to-entice-teachers-20220811-p5b94c.html

[5] https://www.brisbanetimes.com.au/national/victoria/teachers-back-2-per-cent-pay-rise-and-cut-to-classroom-hours-20220524-p5anyi.html

This is applicable to all schools and sectors, including in the non-government sector where adjustments are paid in October as noted above.

However, the impact on budgeting from projected vs actual indexation used to be far greater under previous funding models where non-government school indexation was based on movement in AGSRC.

9. CONCLUSION

Striking a balance between funding certainty and responsiveness to changes in economic circumstances is a key tension when considering the SRS indexation methodology. ISA views the current indexation arrangements as sufficiently transparent and fit-for-purpose.

As self-governing stand-alone entities, the importance of funding stability and predictability for Independent schools is critical. At the same time, indexation plays a key role in ensuring that the value of their funding entitlement is not reduced in real terms over time by inflation and as such, needs to be responsive to movements in the cost of goods and services and salaries.

It is ISA's view that the current settings balance these two competing priorities well. The use of the composite index is transparent and is reflective of the actual costs of schools in relation to the proportion of school income used for salaries and the proportion that goes towards other operating expenditure. The inclusion of the 3% floor is critical for Independent schools to protect them from unforeseen economic circumstances, such as a global pandemic. It also allows schools to have a baseline for future financial planning.

Bringing forward the timing of the application of indexation would provide more funding certainty for schools while making the changes in indexation slightly less relevant to the year in which the funding is being delivered. Given the large number of adjustments made to schools' funding entitlements at the end of the year, bringing indexation forward would assist schools in both their financial planning and in meeting their funding acquittals responsibilities.

One key issue that has become clear through this review is the lack visibility of the bulk of operating costs for schools other than salaries. Given that the level of detail required is not easily accessible, there is an opportunity to undertake research into this question, noting that ISA expects that it would differ greatly across different types of schools.

While such an undertaking is not possible in the timeframe for this review, we suggest this would be a valuable undertaking before any future review.

While out of scope for this review, to ensure that school funding reflects current school costs, consideration could also be given as to whether it is time to recalculate the Schooling Resource Standard. This exercise would also provide insight into the question noted above regarding school operating costs.