Thursday 1 March 2024

Response to the Review of the Schooling Resource Standard (SRS) Indexation Arrangements Issues Paper

The National Catholic Education Commission (NCEC) welcomes the opportunity to respond to the Review of the Schooling Resource Standard (SRS) Indexation Arrangements Issues Paper *(Issues Paper)*.

As the peak body representing Catholic education across Australia, the NCEC advocates on behalf of 1,756 Catholic schools which educate one in five, or 805,000 students, and employ over 109,000 staff.

The NCEC works closely and collaboratively with state and territory Catholic education commissions and authorities and Religious Institute and Ministerial Public Juridic Person (RI&MPJP) school authorities and has consulted with several jurisdictions in the development of this submission.

The NCEC will respond to the four aspects of the current indexation arrangements:

1. The appropriateness of current SRS indexation arrangements, including whether the operation of the SRS indexation arrangements since 2019 has kept pace with schooling price-related cost increases
2. The suitability of the current SRS indexation floor of 3 per cent
3. The structure and weighting of the composite index for the SRS indexation factor
4. The timing of SRS indexation rates, including the reference period for source WPI and CPI data and the date at which the indexation rate is confirmed for the school year.

Background Considerations arising from the Terms of Reference and Issues Paper

The Issues Paper indicates that some jurisdictions requested this review be completed in early 2024 to inform negotiations for the next NSRA. State jurisdictions have not previously raised indexation as a concern in the annual Section 22A Reviews to date. Unfortunately, as suggested in the Issues Paper, this time frame has not allowed for robust analysis, and poorly founded recommendations risk the integrity of the SRS and indeed, the standing of the independent National School Resourcing Board.

Limiting indexation to address lifting Government schools to the full SRS would undermine the standard.

The original Gonski review report highlighted "*further discounting the standard amounts in any way through partial rather than full indexation for changes in costs from year to year would undermine the long-term effectiveness of adopting an outcomes-based resource standard in addressing equity and performance. It would also compromise the integrity of the design of the standard which is derived from data for individual schools which are known to be educationally effective.*"

Alongside the timeframe, the process does not allow proper interrogation. For example, the Issues Paper refers to Deloitte analysis, however, this analysis is not yet available to complement the Issues Paper in the consultations. The NSRB would usually seek broader expert advice to contest assumptions.

Contestability

Education policy considerations, including indexation, are often contestable.

Controversy around 'funding wars' and 'sector wars' are not ameliorated by a highly complex model and various historical factors.

The Victorian Government's removal of payroll tax concessions for some non-government schools on the erroneous claim that government schools paid payroll tax (debunked by the Victorian Parliamentary Budget Office) is a recent case at hand.

As highlighted by the Commonwealth Parliamentary Budget Office (PBO), Indexation arrangements can vary depending on the policy intent and characteristics of the program recipient:

> *For a number of the largest expenditure programs the choice of indexation parameter and the frequency of its use is decided by the parliament and codified in the program's enabling legislation, which can mean it is not easily changed.* [1]

Longstanding failure to review

The first National Education Reform Agreement proposed an independent review to set the approach to indexation of the SRS after three years:

> *The Agreement stated that ministers of the participating jurisdictions would commission an independent expert body to conduct the review and ensure that the body has the expertise to consider the historical approach to indexation of school funding, the drivers of cost in education and appropriate methodologies for maintaining the ability to deliver outcomes.*[2]

The Coalition Government did not conduct such a review ahead of the current arrangements.

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[1] https://www.pbo.gov.au/about-budgets/budget-insights/budget-explainers/indexation-budget-introduction page 1 para 2

[2] https://saveourschools.com.au/funding/indexation-of-the-schooling-resource-standard-should-be-reviewed-by-an-independent-expert-panel/ para 16

Indexation Rationale may be broader

Indexation is described in the Issues Paper as a critical component of the SRS as it ensures that funding is responsive to changes in the prices of salary and non-salary inputs, allowing the real value of funding to be maintained over time. This is a conventional definition of indexation that fails to consider the educational context.

> *The Gonski Reports recommendations on indexation were designed for the conventional purpose of protecting the real value of its proposed funding standard, including loading through annual adjustments linked to changes in the cost of delivery in reference schools. In 2013 this recommended measure would have increased funding by around 3 percent. The Gillard Government's response to indexation, however, was much more complex. Its approach was effectively to use indexation rates to express policy intentions, rather than to simply compensate for inflation. Additionally, varying indexation rates were applied to different elements of the funding arrangements, ...*ranging between 3 and 4.7%.[3]

Relevant factors were multiple: certainty; facilitating transitions, (some of which are still occurring); addressing lag factors in the model; and providing incentives for funding growth to support schools for the 21st century.

Changing parameters and policy intentions mean that long-term trend data needs to be interrogated carefully.

Complex, interconnected model

Changes impacting on the model should not be considered in isolation. Other factors that should be considered include cost of living pressures regarding the Direct Measure of Income (applying the Capacity to Contribute mechanism to non-government schools), not-for-profit concessions, differential depreciation arrangements, amongst others.

Data limitations

It is disappointing that the data referred to in the Terms of Reference has not been used in analysis due to timeframes and availability. This submission addresses the financial data available for the Catholic sector. The NSRB also has additional data sources available from the Department of Education and previous NSRB reviews.

Need for common comparators

As highlighted below, caution should be exercised in comparing Catholic sector data, as common comparators are often unavailable.

[3] chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://research.acer.edu.au/cgi/viewcontent.cgi?article=1024&context=aer

Certainty

Australian governments have committed to funding certainty, including indexation to provide assurance to families with children in non-government schools.

Responses to Questions

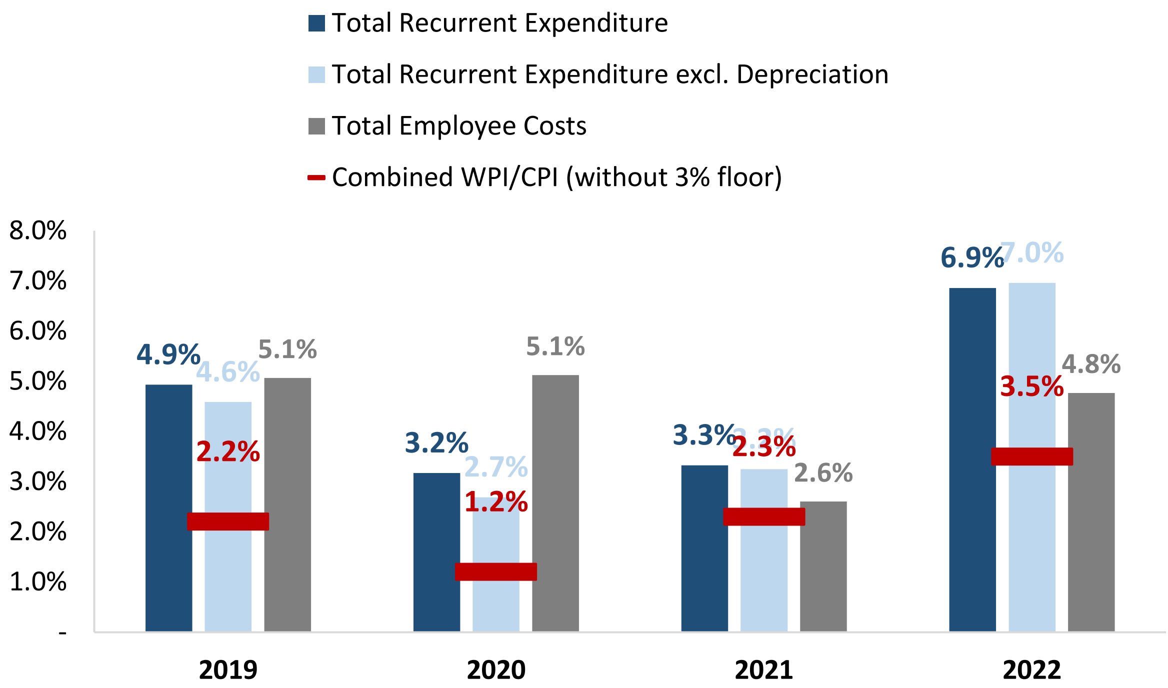
1. **The appropriateness of current SRS indexation arrangements, including whether the operation of the SRS indexation arrangements since 2018 has kept pace with schooling price-related cost increases.**

   Through our analysis, the NCEC had identified that the current SRS indexation arrangements have partially failed to keep pace with costs in the current high-cost operating environment of Catholic schools.

   To answer this review question nationally, Financial Questionnaire (FQ) data collected by the NCEC demonstrates cost pressures in operating Catholic schools. This data represents 94% of the 1,756 Catholic schools across the country.

   Chart 1 below shows the percentage increases in total costs of operating Catholic schools in Australia.

Chart 1 – Percentage increases in total costs of operating Catholic schools



Source: Financial Questionnaire data collected by NCEC for all Catholic dioceses/archdioceses in Australia

The NCEC understands that not all annual increases in costs were driven by wage prices and consumer prices. To minimise the cost increases driven by enrolment numbers, Table 2 shows the total costs increases per student and the variability between states.

Table 2 – Total costs (including depreciation) increase per student, by state

	2019	2020	2021	2022
ACT	5.8%	2.3%	3.3%	5.5%
NSW	3.2%	3.2%	3.9%	8.0%
NT	6.5%	-1.0%	5.3%	0.2%
QLD	5.3%	5.5%	7.1%	3.9%
SA	4.4%	2.4%	1.8%	4.1%
TAS	11.1%	2.3%	7.7%	5.3%
VIC	6.8%	3.5%	3.2%	8.0%
WA	3.0%	0.5%	3.2%	5.6%
AUSTRALIA	**4.9%**	**3.2%**	**3.3%**	**6.9%**

Source: Financial Questionnaire data collected by NCEC for all Catholic dioceses/archdioceses in Australia

Total costs increases per student do not completely isolate costs driven by wage prices and consumer prices from costs driven by other factors (e.g., students with higher needs), however, it does highlight the current high-cost operating environment faced by Catholic schools.

The December 2023 Wage Price Index data published on 21 February 2024, confirmed that "*the industries with the largest contribution to quarterly wage growth were Health care and social assistance (1.3%) and Education and training (1.7%)*".

With assistance from state and territory Catholic education commissions and authorities, the NCEC researched historical and future salary increases offered to Catholic school teachers.

	Staff type	2022	2023	2024	2025
ACT	Teachers at ACT systemic Catholic schools	1.5% on 1 July 2022	11% on 1 August 2023 for graduate teachers 3.9% on 1 August 2023 for highly accomplished teachers	4.3% on 1 August 2024 for graduate teachers 3.7% on 1 August 2024 for highly accomplished teachers	3.1% on 1 August 2025 for graduate teachers 4.5% on 1 August 2025 for highly accomplished teachers
NSW	Teachers at NSW systemic Catholic schools (except Broken Bay diocese)	2.04% on 1 January 2024 0.25% on 1 July 2024	2.54% on 1 January 2024 8% - 12% to match one-off salary increases applied to government teachers	TBC	TBC
NSW	Teachers at NSW Independent Catholic schools – Model A	2.04% on 1 February 2022	2.04% on 1 February 2023 2.00% on 1 February 2023	5.0% on 1 February 2024	5.0% on 1 February 2025
NSW	Teachers at NSW Independent Catholic schools – Model B	2.04% on 1 February 2022	2.78% on 1 February 2023	3.5% on 1 February 2024	3.5% on 1 February 2025

	Staff type	2022	2023	2024	2025
			5% - 14% on 9 October 2023 to match one-off salary increases applied to government teachers		
NSW	Teachers at NSW Independent Catholic schools – Model C	2.04% on 1 January 2022	5% - 20% on 9 October 2023 to match one-off salary increases applied to government teachers		
NT	Teachers at Catholic schools	3.50% on 3 March 2022	3.3% on 3 March 2023	3.3% on 3 March 2024	Current EBA expires Dec 24 with negotiations due to commence in Jul 24.
QLD	Teachers at systemic Catholic schools	4.0% on 1 July 2022	4.0% on 1 July 2023	3.0% on 1 July 2024	Percentage increase on 1 July 2025 will match that applied to government teachers
QLD	Teachers at Religious Institute schools	4.0% on 1 July 2022	4.0% on 1 July 2023	3.0% on 1 July 2024	Percentage increase on 1 July 2025 will match that applied to government teachers
TAS	Teachers at systemic Catholic schools	2.35% on 1 March 2023	3.5% expected to match salary percentage increase of government teachers New EBA currently in negotiation	3.0% expected to match salary percentage increase of government teachers New EBA currently in negotiation	3.0% expected to match salary percentage increase of government teachers New EBA currently in negotiation
SA	Teachers at systemic and non-systemic Catholic schools	2.35% on 1 May 2022	4.0% expected on 1 May 2023 to match percentage increase of government teachers (via backpay)	3.0% expected on 1 May 2023 to match percentage increase of government teachers	TBC
VIC	Teachers at Catholic systemic schools and Catholic non-systemic schools	1.0% on 1 January 2022 1.0% on 1 July 2022 Significant workload reduction measures	1.0% on 1 January 2023 1.0% on 1 July 2023 Significant workload reduction measures	1.0% on 1 January 2024 1.0% on 1 July 2024 Significant workload reduction measures	1.00% on 1 January 2025 Significant workload reduction measures
WA	Teachers at Catholic systemic schools and some Catholic non-systemic schools	5.0% on 6 December 2022	3.0% on 6 December 2022 A $3,000 one-off, pro-rata payment in 2023	TBC	TBC

Source: Enterprise Bargaining Agreement published on Fair Work Commission website

In Queensland, Catholic teachers in diocesan and RI&MPJP Catholic schools received four per cent salary increases in 2022 and 2023. They will receive three per cent in 2024 and an increase in 2025 matching the salary increase provided to teachers in Queensland governments. In addition to the salary increases, Catholic employees received an increase in superannuation to 12.75 per cent and a cost-of-living payment of three per cent in 2023 and up to three per cent in 2024 and 2025, the quantum of which will depend on whether and how much the Consumer Price Index is above the relevant salary increases.

In NSW, Catholic diocesan schools matched the NSW Department of Education (NSW DoE) by providing eight to twelve per cent salary increases, taking effect from 9 October 2023 for teachers, and four per cent increases for support staff from 1 July 2023. With the current Enterprise Bargaining Agreement set to expire in October 2024, it remains to be seen if further increases will be applied in the future. Although, NSW Catholic diocesan schools are likely to follow any increases that the NSW DoE will apply following their negotiations in 2024.

In the ACT, Catholic school teacher salaries have been consistently benchmarked against comparable salaries offered to government teachers by the ACT government. The ACT government has committed to increasing graduate teacher salaries from $84,970 to $91,397 and the top-of-band teacher salary from $119,288 to $129,106. Reflecting their practice of benchmarking salaries against the public sector, Catholic Education Archdiocese of Canberra Goulburn has committed to increasing Catholic graduate teacher salaries from $84,978 to $91,397. They have also committed to increasing their top-of-band Catholic teacher salaries from $119,288 to $129,106.

In Victoria, Catholic school teachers will receive a one per cent increase every six months from January 2022 to July 2025 (slightly more than two per cent per annum as it is compounded). Teachers will also receive a lump sum allowance equivalent to one per cent of the teachers' total salary each December until December 2025. While the nominal increase in salaries is relatively modest, the approved new EBA contains significant workload relief measures such as reducing face-to-face teaching time, the "30 + 8" model, and the provision of time in lieu for directed out-of-school hours activities, including the attendance at camps, parent-teacher interviews, excursions, and sports held outside of normal school and working hours. The reduction in face-to-face teaching time will require Victorian Catholic schools to backfill the reduced teaching hours over the life of the agreement. This measure and the introduction of time in lieu will lead to additional costs to Victorian Catholic schools that are not factored into the applicable Wage Price Index. It should also be highlighted that the full cost of these arrangements is not yet apparent, as teacher shortages are at present constraining school expenditures on staffing.

In Western Australia, Catholic education employers offered salary increases of five per cent in December 2022 and three per cent in December 2023. Catholic school teachers also received a $3,000 one-off, pro-rata payment in 2023 at the time of the EBA yes vote.

In the Northern Territory, salary increases for Catholic school teachers in 2023 and 2024 are 3.3 per cent each year.

In Tasmania, Catholic education employers are currently in the negotiation process with the Independent Education Union Victoria and Tasmania (IEUVICTAS) who has requested that salary increases offered to government teachers should flow on to teachers in Catholic schools in the new EBA, as is the case in the expired EBA (the Tasmanian Catholic Education Single Enterprise Agreement 2018). The increases in governments are 3.5 per cent in 2023 and 3 per cent in 2024 and 2025. As negotiations between IEUVICTAS and Catholic education employers in Tasmania is currently ongoing, it is expected that Catholic education employers in Tasmania match the salary increases of government teachers in the new EBA.

Catholic Education South Australia (CESA) will commence Enterprise Bargaining Agreement (EBA) negotiations before 31 July 2024 which is the nominal expiry date of the current EBA. This agreement includes provisions for all employees covered to receive the same salary increases, from the same dates for 2023 and 2024, as approved for teachers in SA governments. The South Australian Department for Education EBA has recently been submitted for ratification in the South Australian Employment Tribunal (SAET). When ratified, CESA will apply the four per cent salary increase for 2023 and the three per cent salary increase for 2024.

In December 2023, as a gesture of goodwill and recognition of commitment and contribution, CESA applied a three per cent salary increase with immediate effect, on the basis that if a higher salary percentage increase for government employees resulted, this would be topped up and included in backpay provisions once the government agreement was ratified by SAET. Therefore, a further one per cent salary increase and associated backpay will be applied upon ratification of the South Australian Department for Education agreement for 2023. Additionally, a three per cent salary increase will be processed in May 2024. It is accepted that, the salary increase provisions of the next CESA agreement will, as a minimum, apply a salary increase of three per cent for 2025 and three per cent for 2026 (consistent with SA Department of Education salary increases)**.**

For RI&MPJP Catholic schools, Multi-Enterprise Agreements (MEAs) have been negotiated for longer terms. Some schools have agreed to five per cent increases per annum for the term of the MEA, along with additional increases in July and October 2023, in response to NSW DoE increases. Other schools have applied 3.5 per cent and three per cent annual increases for teachers respectively, and four per cent for support staff, as well as increases in July and October 2023 to match the NSW DoE increases.

The issues paper has not outlined enterprising bargaining processes in each state and territory. The variable salary pressure, outlined above, faced by many Catholic education employers are now available to be considered by the Review.

2. The suitability of the current SRS indexation floor of 3 per cent.

The purpose of Schooling Resource Standard (SRS) indexation arrangements is to "reflect changes in prices and, therefore, the costs faced by schools". Currently, however, the issue is the Wage Price Index (WPI) and Consumer Price Index (CPI) used to inform SRS indexation rates are not specifically related to school education.

The NCEC understands there may have been initial concerns that utilising WPI and CPI data specific to education in applying SRS indexation, may create unintended incentives for schools or systems to inflate Commonwealth funding by offering higher salary increases to teachers. In current circumstances, these concerns may not be valid. In the current operating environment where all schools and school systems are facing unprecedented pressure and increasing their financial offerings to attract and retain teachers, the NCEC suggests it is time to explore the merit of using industry specific WPI and CPI data to inform and ensure appropriate SRS indexation arrangements.

At the time the current SRS indexation arrangements were developed, it was known that using non-industry specific WPI and CPI data resulted in very low SRS indexation rates, which clearly do not reflect the changes to wage prices and inflation in the school education industry. This was one of the initial key reasons for introducing a three per cent indexation floor.

The Commonwealth should explore the merit of industry specific WPI and CPI so that SRS indexation rates are relevant to school education. During this exploration, the current floor of three per cent should be retained to ensure that unprecedented salary increases offered to Catholic school teachers, as mentioned above, will not jeopardise the operation and financial viability of Catholic schools.

The "circularity" problem mentioned in the Issues Paper should not deter the Commonwealth from exploring industry specific indices. The NCEC strongly believes that SRS indexation should address wage and consumer price changes in schools.

Moreover, recent changes to the policy context of the SRS funding model have created challenges that had not been considered when the SRS funding model was developed. One example, as mentioned above, is that some new Enterprise Bargaining Agreements (EBAs) have seen a reduction to in-class teaching time for teachers in some states. In fact, using data published by Australian Bureau of Statistics, NCEC's analysis shows that student to school staff ratio between 2006 and 2023 continuously declined from 10.4 in 2006 to 8.6 in 2023.

The Issues Paper has not yet considered that the declining student to staff ratio reflects changes in quantity which also impacts recurrent resources required to educate a student with minimal levels of disadvantage. The extra costs associated with hiring additional staff to accommodate changes to working conditions have not been addressed in the current SRS funding model nor in the Issues Paper.

As Catholic schools respond to unexpected changes to the policy context and their financial consequences, the current indexation floor of three per cent should be retained in the foreseeable future to provide certainty. The removal or reduction of the floor would provide a financial impost on Catholic schools in a climate of increasing salaries and other costs.

Finally, Catholic schools need long-term funding certainty to be able to invest confidently in teaching and support staff, and various programs in schools. A highly volatile funding model would deter schools and systems from investing in school education, costs of operating schools may not respond as quickly as changes to revenue due to commercial contracts, labour protection legislation, etc. For this third reason, again, the current floor of three per cent should be retained.

The Issues Paper suggests that the three per cent indexation floor should be retained for funding certainty. The paper also notes that the value of three per cent is appropriate as it will not be triggered in a 'normal' inflationary environment.

Given the demonstrated cost pressures faced by Catholic schools in the current operating environment, the NCEC strong supports that the existing three per cent SRS indexation floor is suitable and should be retained in future.

3. **The appropriateness of the composite index, including its structure, weighting and possible alternatives to the current composite index – current set as 75 percent Wage Price Index and 25 percent Consumer Price Index.**

Based on Financial Questionnaire data collected by the NCEC, it is estimated that salary and wage costs represent approximately 61.2 per cent of total costs of operating Catholic schools when depreciation is included. When depreciation is excluded and other staff-related expenditure is included (e.g. superannuation, long service leave, etc.), this amount is 77.3 per cent.

The NCEC recommends that the Australian Government, in collaboration with the NCEC, Independent Schools Australia, and state and territory education departments, establishes universal definitions of employee and other costs. When this is completed, the Australian Government should consider adopting the latest financial data to consider the weightings applied to Wage Prince Index and Consumer Price Index.

As already outlined above, the NCEC supports exploring school education industry specific WPI and CPI indices.

NCEC would also recommend that the NSRB be aware of potential structural changes that are being suggested in Australian schools. For example, if the next National Education Reform Agreement proposes an increased focus on student health and well-being there will be a change to the traditional cost structures in schools with increased allied health and non-teaching roles in schools. There is a lag time in any cost changes being reported due to the nature of the Financial Questionnaire collection, which should also be considered.

4. The timing of SRS indexation rates, including;

- **a) the reference period for source WPI and CPI data,**
- **b) the date at which the indexation rate is confirmed for the school year, and its impact on systems and schools' ability to effectively budget**

The current reference period for the Wage Price Index (WPI) and Consumer Price Index (CPI) is June of the previous year to June of the current year, with the final Schooling Resource Standard (SRS) indexation rate for this year confirmed in August.

Based on feedback from some state and territory Catholic education commissions and authorities, the NCEC believes this reference period and the timing of the indexation rate work well.

Other reference periods (e.g., September to September or March to March) may result in final adjustments being missed in the October payment (if September to September) or the SRS indexation rate calculated not reflecting the economic background of the current year (if March to March).

The NCEC understands that Catholic schools and school systems typically start their budgeting processes in July and August every year. Therefore, the current timing of the SRS indexation rate, which is mid-August, works well.

The SRS indexation rate's current reference period and timing should be retained without changes.

Recommendations

As outlined in our analysis above, the NCEC recommends the following:

1. The Australian Government retains the three per cent indexation floor to provide long-term certainty and confidence for Catholic schools and systems.

2. The National School Resourcing Board, in collaboration with the NCEC, Independent Schools Australia, and state governments, explores the merit of aligning indexation arrangements to school education industry-specific Wage and Consumer Price Indices.

3. In collaboration with the NCEC, Independent Schools Australia, and state and territory education departments, the Australian Government establishes universal definitions of employee costs and other costs. When this is completed, the Government should consider adopting the latest financial data to determine the weightings applied to Wage and Consumer Price Indices.

4. The Australian Government retains the existing reference period and timing of the Schooling Resource Standard (SRS) indexation rate.

Thank you, once again, for the opportunity to participate in the NSRB Indexation Review.

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