Review of the SRS indexation arrangements – Issues paper

This document has been prepared by the Northern Territory (NT) in response to the Issues Paper for the review of the Schooling Resource Standard (SRS) arrangements.

A response to each of the questions set out in the Issues Paper is provided.

Appropriateness of current indexation arrangements

Are data sources available on the breakdown of non-salary operating expenses for schools?
It would be difficult for the department to provide this level of information in the timeframes provided as this information is not routinely provided in this format.

What are the most substantial non-salary operating inputs?
Per above, this level of information cannot be readily provided without significant administrative burden.

Based on the department's annual financial statements, its main expenditure includes:

- Government employee housing
- Repairs and maintenance
- Information and communications technology related costs
- Insurance premiums, such as workers compensation
- Property management costs, including cleaning
- Utilities, including electricity and water.

Note that this is based on the annual financial statements and does not take into account whether, or to what extent, this expenditure is counted as contributing towards the SRS.

Suitability of current indexation floor

How are the trade-offs between funding certainty and funding accuracy perceived?
Funding certainty is important to support jurisdictions in managing its funding and ensuring SRS targets are met. It has been noted that the pursuit of accuracy can at times have a negative impact on timing and in turn, funding certainty and ability to plan to meet expenditure targets as a system and at the school level.

Have perspectives about the rationale for an indexation floor changed over time?
The NT understand the reasoning behind an indexation floor to provide better funding certainty. If a floor was to be maintained, further discussions would be required around the level of the floor when taking into consideration fiscal constraints of the NT.

Is the current indexation floor of 3 per cent appropriate? Should it change?
While the Consumer Price Index (CPI) is high, the indexation floor isn't a cause for concern. However, in times when CPI is low, the indexation floor can be at odds with actual indexation.

The NT's preference would be, in recognition of this being a 'floor', that the rate is lower than the current 3 per cent. When exploring what the lower rate may be, factors that should be considered include:

- a jurisdiction's fiscal capacity
- productivity gains that may be realised
- an appreciation of other investments that may contribute towards education outcomes but are not necessarily included in the SRS as jurisdictions require the flexibility to invest for greater outcomes for children.

Based on this, the NT would suggest lowering of the indexation floor to 2.5 per cent, which would be consistent with the average Wage Price Index (WPI) increase over the period 2019 to 2023 and would be the mid-point of the Reserve Bank of Australia's inflation target.

Further, the NT suggests that the SRS indexation floor not be considered on a year-by-year, compounding basis but rather be used to provide funding certainty and be dynamic across years. By way of example, if WPI/CPI is 2 per cent, compared to a 3 per cent floor, the SRS would increase by 3 per cent (the floor indexation) in the first year, with the increase in the following year(s) offset by the difference. This would ensure the model maintains its overarching intention that the purchasing power of the SRS is maintained over time while mitigating the risk of the indexation floor overcompensating in lower WPI/CPI years.

Additional comments
Consideration should be provided for an indexation ceiling, this would support governments in managing risks, especially for those jurisdictions, such as the NT with limited fiscal capacity. The NT is highly dependent on Commonwealth funding with around 69 per cent of total revenues coming from Commonwealth transfers.

In essence, the NT would recommend an indexation range to be implemented.

Structure and weighting of composite index

Are there any other data inputs that should be considered for the composite index?
Agree that current split between CPI of 25 per cent and WPI of 75 per cent is appropriate as it continues to broadly reflect the weight of salaries relative to other expenditure. Consideration may be given on determining the split based on changes over time, such as applying a three-year average, however this would need to be balanced with simplicity and transparency of the methodology.

With reference to the CPI component (where schools/education system are price takers) the NT can see the merit in building an education/schools specific bundle of goods and services from the Australian Bureau of Statistics (ABS) prices indexes that feed into the current capital cities CPI. This could allow for a more appropriate weighted bundle of goods and services for the non-wage component and could be contextualised for the NT, such as including a housing component, utilities and factors that impact cost in remote and regional areas in the NT. However, this would need to be balanced with the resources and investment of time required from schools to build the index with a resulting outcome that may not vary largely from the current CPI methodology.

Adopting a more specific bundle of goods and services appropriate to schools would be unlikely to impact policy integrity or generate a situation where expenditure outcomes are causing issues via generating a feed-back loop into the indexation system if it is done nationally.

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 EBAs set with regard to the SRS indexation rate?
Currently the SRS indexation rate does not inform or influence government policy decisions, including any bearing in negotiations around wage increases through Enterprise Bargaining Agreements (EBAs) or government budget parameters.

NT Government agencies' budgets vary each year in line with the application of parameters (inflators and deflators) to the budget year and forward estimates on a no-policy-change basis. The main parameters used to adjust forward estimates are:

- wages – inflator
- CPI – inflator
- efficiency dividend – deflator.

The wages parameter is set in accordance with the Northern Territory Public Sector 2021–2024 Wages Policy. The Wages Policy sets the parameters to support collective bargaining with unions, ensures costs arising from bargaining outcomes are maintained within the NT Government's fiscal parameters, and supports the NT Government's strategic objectives and the strategic business objectives of agencies.

The CPI parameter for the budget year is generally adjusted to match the year-on-year change in the Darwin CPI for the latest December quarter to better reflect actual price trends.

An efficiency dividend is applied to budgets for operational costs, employee costs, and recurrent grants and subsidies premised on improving processes and technology, and delivering services more efficiently over time, as is the case with private sector enterprises. An efficiency dividend of 1 per cent per annum is currently applied in all years. For the Department of Education, a two-thirds discount is applied to the efficiency dividend in recognition that a majority of their costs relate to frontline services, which are substantially fixed in nature.

Timing of SRS indexation rates

To what extent is it important that funding payments respond quickly to estimates of changes to input prices?
As discussed earlier, preference is for greater funding certainty at the beginning of the year rather than greater accuracy. Reconciliation at the end of the year limits a school's ability to adjust their expenditure plans for an increase or decrease in funding.

It should be noted that the NT's context consists of many remote, small schools and a slight change in indexation can have a big impact on a school's budget from a relativity perspective. Coupled with a school's remoteness, there can be very limited capacity to increase spending, especially when staffing is one of the largest costs for schools and takes deliberate workforce planning and availability of workforce upfront to ensure this budget is spent.

Though the query around timing in this paper is from the lens of Australian Government funding received, the timing of SRS indexation rates will also have an impact on state and territory SRS contribution targets. Changes at the end of the year can impact a jurisdiction's ability to meet its bilateral obligations, especially for a small jurisdiction such as the NT.

This would affect both the government school and non-government school sector. For the non-government school sector, the NT also makes a balancing payment in December of each year to ensure SRS contribution targets are met. The timing of this payment would also have an impact on non-government schools in effectively spending this funding before the school year ends.

How much lead time after final indexation is known do schools and systems feel is needed to support effective budget planning and resource allocation?
The funding cycle in the NT is that schools receive their preliminary school funding at the end of Term 3 the previous year to support schools in planning for the following year. This is followed by the release of final funding at the end of Term 1, where schools may adjust their budgets for the year ahead.

As such, schools would have finalised their budget planning at the start of the year which does not align with current SRS indexation timing arrangements.

Per above, the timing at the end of the year would also impact the non-government school sector.

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?
As discussed above, this is too late in the year for schools to adjust their expenditure plans.

By way of example, in 2022 the June quarter FET provided indexation of 3 per cent, and in the September quarter (published on 7 October) the indexation had increased to 3.5 per cent.