

Summary

The Centre for Independent Studies (CIS) is a leading independent public policy think tank in Australasia. Our work is driven by a commitment to the principles of a free and open society. The CIS is independent and non-partisan in both its funding and research, does no commissioned research nor takes any government money to support its public policy work.

Our primary recommendations are as follows:

- 1 The School Resource Standard (SRS) per-student and loading amounts should be reviewed, to ensure the federal government funding model is based on reliable and up-to-date data.
- 2 School systems should retain the flexibility to distribute funding to their schools as they see fit. Flexibility in distribution of the pool of federal government needs-based funding within school systems is fundamental to system autonomy, especially for the non-government sectors. Every student is different, so funding models should be sufficiently flexible to be responsive to local needs.
- 3 School systems should retain flexibility in how they distribute both the SRS per-student amounts and loadings. The loading amounts for disadvantage are not underpinned by reliable evidence, so school systems' funding models are better able to allocate funding according to genuine need.
- 4 Ongoing monitoring should focus on the performance of systems in utilising their needs-based funding, using appropriate metrics such as student academic achievement. How effectively money is allocated and spent is more important than how much is given to specific schools. For transparency to contribute to accountability, parents should be given relevant information to inform their choice of school.

Submission

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The CIS welcomes the opportunity to contribute to the National School Resourcing Board (the Board)'s review of needs-based funding requirements for approved system authorities (as defined under the Australian Education Act 2013 (the Act) and the Australian Education Regulation 2013 (the Regulation).

Disclaimer: Mr Michael Chaney AO, Chair of the National School Resourcing Board, is a CIS Board member.

RECOMMENDATIONS:

- 1 The School Resource Standard (SRS) per-student and loading amounts should be reviewed, to ensure the federal government funding model is based on reliable and up-to-date data.
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NEEDS-BASED SCHOOL FUNDING:

Needs-based funding is central to school financing arrangements in Australia, across state and territory jurisdictions, and across school sectors. The commitment to funding based on needs is commendable and has in recent years been formally enshrined in legislation. Specifically, the Act and the Regulation set out the needs-based funding model employed by the Commonwealth (namely, the School Resourcing Standard (SRS) — comprised of both a base component and a ‘loading’ component) as well as the legal conditions that must be met by school systems receiving federal government financial assistance.

Under subsection 78(5) of the Act, approved system authorities are directed to distribute federal government funding in accordance with the needs-based principles. It requires that systems: provide an appropriate per student base amount of funding; provide loadings to address students and schools with additional needs; and make their arrangements publicly available and transparent. This does not prescribe the specific distribution of funds, but does provide guidance that approved system authorities must comply with. It also does not specify how — and in what form — arrangements should be made publicly available.

While school funding is an important contributing factor to the education outcomes of students, what ultimately matters is how effectively money is spent, rather than how much — as indicated by a wealth of international evidence. In particular, how efficiently funding is allocated among schools is vital; as is ensuring that investments are based on cost-effective, evidence-based policies and practices.

While funding should be determined and distributed on the basis of need, the evidence base underpinning the SRS is contested and not empirically sound. In particular, the SRS amounts are unreasonably high — the majority of all Australian school students are classified as ‘disadvantaged’ and, thus attract additional loadings — and is informed by outdated data. This highlights the need for a review of the SRS and the loadings for disadvantage. As it currently stands, the federal government’s flawed funding formula cannot be reasonably imposed on school systems.

Individual school systems’ funding models are likely to be superior to the SRS. Moreover, what constitutes ‘needs’ and how these are prioritised is difficult to determine uniformly at the federal level. System authorities are, in general, best placed to determine and apply needs-based arrangements for their own systems.

Recent advice to the federal Department of Education found there were deficiencies in the administration and assurance arrangements for monitoring the distribution of public funding. In this submission, the CIS seeks to contribute in response to the submission focus questions as indicated in the Issues Paper.

BALANCING PRESCRIPTION AND FLEXIBILITY IN DETERMINING NEEDS-BASED FUNDING:

Within the needs-based funding arrangements in place in Australia, the matters of determination and allocation of funding should be separated. While the federal government has committed to a consistent determination of school system funding entitlements in accordance with the SRS, the method for allocating funding to schools should be different. It is appropriate that systems retain their flexibility and autonomy to allocate funding in accordance with their own needs-based systems. For this reason, any effort to increase prescription of needs-based distributions — at the expense of flexibility — would be detrimental to education systems, and to disadvantaged students within systems.

The principle of subsidiarity is foundational to the effective and efficient functioning of federal systems of government. This is especially true because the Commonwealth retains no constitutional authority for the administration of schooling. Reports on Government Services (Productivity Commission) and National Reports on Schooling (ACARA) have made clear that states and territories in Australia have different needs, and thus face their own educational and socio-economic priorities.

To this end, it is appropriate that state and territory governments retain the discretion to allocate their funding contributions according to their own needs-based funding models for government schools in their jurisdiction. In common with the recommendations made by the National Commission of Audit (2014) and the Draft Federation White Paper (2015), the CIS has previously suggested that funding could be both determined and allocated by states, rather than the Commonwealth (Blaise Joseph. 2017. *The Fantasy of Gonski Funding*, Centre for Independent Studies Research Report No. 26).

The Review of Funding for Schooling in 2011 (the ‘Gonski Review’) recommended that funding arrangements “should continue to enable systems to make decisions around the redistribution and allocation of resources at the local level.” It also affirmed that non-government systems “play an important role in the distribution of funding and this role should be maintained.” (p53)

Among the associated benefits of system-based allocation of funding identified in the Gonski Review are efficiencies through economies of scale and the use of local knowledge of schools and communities to distribute funding to where it is needed most. The additional information about local needs within systems — both of student and school needs, as well as their broader financial circumstances (such as capital and special purpose funding) — allows for better targeting of funds for system priorities. This can include reallocating resources to ensure financial sustainability of schools within a system. This protects parents and students from disruptions that may result from excessive school fee variations — school closures, for example.

OECD research (OECD. 2017. *The Funding of School Education: Connecting Resources and Learning*. OECD Publishing, Paris) has found that high performing education systems tend to have funding allocated predominantly at local levels. It appears that higher levels of autonomy in funding are positively associated with student achievement (see, for instance, Thomas Fuchs and Ludger Wößmann, *What accounts for international differences in student performance? A re-examination using PISA data*, *Empirical Economics*, 32 (2-3), pp. 433-464).

Accordingly, system authorities are best placed to make needs-based determinations for their system. Flexibility should be retained in the allocation of funding by systems. Moreover, this flexibility should continue to be applied to (recurrent) funding amounts in their entirety, rather than having different levels of flexibility in the distribution of the SRS base per-student and loading amounts.

A prescriptive application of the SRS treats all students’ needs as essentially the same. For instance, all students from a low SES background attract a uniform loading, irrespective of whether they actually face education disadvantage. The distribution of loadings by systems can allow for allocation that may not be sufficiently captured in the SRS student and school loadings.

The loading categories may not be adequate to cater for all sources of student disadvantage. As the Gonski Review found, systems are capable of employing a greater range of measures of need in their funding formulas.

The SRS funding allocations are also inaccurate because they are based on the average applicable loadings, which may not necessarily be an accurate reflection of the nature of disadvantage in particular school communities. For this reason, the flexibility for systems to determine their own system needs and redistribute their loadings is critical to addressing educational disadvantage within education systems.

ENSURING THAT TRANSPARENCY TRANSLATES EFFECTIVELY TO ACCOUNTABILITY:

The provisions in the Act do not specify precisely how and in what form school systems’ needs-based funding allocations should be made publicly available. Some stakeholders have interpreted this to mean that Block Allocation Grants given by the federal government to school systems should be publicly reported. However, this could produce adverse outcomes and not contribute to accountability.

While transparency is important, it must communicate the right information, and should facilitate — rather than limit — choice in the education system. Moreover, accountability is best exercised when it is focussed on outcomes and is exercised through parental choice, rather than enforcing top-down compliance.

Public disclosure of school system redistribution models could apply pressure on systems to more closely conform to the flawed SRS determinations, in attempts to avoid apparent breaches of compliance. This would effectively impose a flawed 'one-size-fits-all' approach to the distribution of funding to support student and school needs. Systems redistribute their funding for entirely reasonable purposes, and this would be undermined by a monitoring system that applies accountability toward strict compliance with the federal government formula.

Additional compliance reviews may add to the already excessive administrative burden placed upon schools and systems, which detracts them from their core function of education. The CIS supports the view expressed in the National Commission of Audit, that reporting to the Commonwealth level should be limited, and instead allow for systems in each state (for government school systems) and representative body (for non-government systems) to be accountable to their respective stakeholders.

The publication of Block Allocation Grants could unhelpfully expose particular school communities and students. The areas of particular concern are in the decomposition of needs-based loading categories that systems choose to employ, as well as in the adjustments that are applied for parental capacity to contribute. The needs-based categories a system uses can include specific subcategories that could identify some students according to a particular source of disadvantage. It would also result in the publication of details of students with disability or other special needs categories. This could result in the perverse effect of systems choosing to abandon additional support for some needs-based categories in order to prevent identification. In addition, fully disclosing the adjustments made for parental capacity to pay is not constructive and is needlessly intrusive into parental incomes. It is also unfair in the treatment of non-government sectors, because capacity to contribute adjustments are not applied to government schools.

The publication of Block Allocation Grants would also not be useful as a form of accountability by parents. This is because it is difficult for a typical user of this information to interpret potential complex components of funding formulae. What is most important is that reporting of needs-based distributions should be geared toward demonstrating what is being achieved with the funding model, rather than being simply reported as a compliance exercise. For transparency to contribute toward accountability, the information on display must be able to be meaningfully interpreted by parents and other stakeholders.

Systems' accountability should be in terms of the outcomes that are relevant to stakeholders (such as NAPLAN results or Year 12 attainment), rather than processes (such as the composition of funding distribution). Accordingly, reporting on the relative performance of systems' funding models in achieving different indicators of achievement and equity — such as those that have been employed by researchers in the United States (for instance, the work of Deborah Verstegan) — would be more effective in ensuring accountability. Such reporting could function as appropriate signals to parents about the effectiveness of distribution within systems, without exposing individual school loading distributions, potentially fostering more informed inter-system school choice for parents.

School choice, supported by system autonomy and accountability, tends to be positively associated with student achievement (see, for example, Wöbmann et al. 2007, *School Accountability, Autonomy, Choice, and the Level of Student Achievement: International Evidence from PISA 2003*, OECD Education Working Paper Series, No. 13, OECD Publishing, Paris). This is important for the functioning of a high-quality school system where every student can flourish.