Emerging Issues and Ideas

Government Schools
Funding Review

Contents

Message from The Chair

It is a privilege to have been asked to Chair the Government Schools Funding Review.

I have been asked to consider and make recommendations to the Minister for Education about how to achieve a funding system which supports schools and promotes excellent educational outcomes for all Victorian Government school students.

The Review will look especially at:

1. how government school funding is currently allocated and used.
2. Commonwealth contributions to government school funding in Victoria.
3. how the Student Resource Package is calculated, constructed and distributed.
4. how to make sure the system is clear and transparent for principals and school communities on school funding and how it is determined.

The Review comprises three main parts: initial consultation to understand the range of views among stakeholders and the community, including for reform; comprehensive research and analysis on the options available to reform school funding; and a further round of stakeholder consultations to test and refine reform options in preparation for the final report to the Minister.

This 'emerging issues and ideas' report completes the first phase. The report is intended to communicate to stakeholders and to the public the key funding issues and reform ideas that were expressed during consultations. As such, they do not represent the views of Review. In the next phase of the Review, evidence about the performance of the system and how it can be improved will be used to analyse stakeholder views and to form the basis of recommendations.

As part of this initial consultation process, I have met with individual principals, teachers, students, parents, government officials, school councillors, school business managers, researchers, community and social welfare organisations, industry and research bodies. I have also met peak bodies representing these groups.

The views of thousands of people have been represented to us through a formal submission process, to which over 220 groups and individuals contributed.

I am encouraged by the conviction of those who have made their views known to improve education outcomes for young Victorians.

While there are a range of views across stakeholders, common themes emerged:

- Schools and the community want trust and confidence in Victoria's funding system.
- They want a system that provides resources to schools based on the educational needs of students to obtain a high-quality education.
- The intent of the Student Resource Package has broad support, but elements of the model need updating.
- More can be done to meet the needs of some students, including the most disadvantaged.
- Schools and communities want to understand the funding system better. They want more transparency from Government about funding decisions and school budget allocations.
- Stakeholders want to know that school leaders are supported to use resources in the best possible way to improve outcomes for children.
- They want actors in the system to be accountable for resourcing decisions.

If you would like to comment on this paper, or express your views on how Victoria's funding system can be improved, I encourage you to send your views to **schools.funding.review@edumail.vic.gov.au.**

The Hon Steve Bracks AC
Chair
Government Schools Funding Review

An overview of Victoria's school system

Context

The Government Schools Funding Review is happening at a critical time for education in Victoria.

All Victorians hope that young people will go on to lead healthy and prosperous lives, where they can find satisfying jobs, raise families and contribute to their communities. But young Victorians face a future that is both rich in opportunities and intimidating in challenges.

An increasingly competitive global economy will create new job opportunities for Victorians with strong skills, especially in knowledge-based and service industries. At the same time, the Victorian economy is in transition, with lower skilled and manufacturing jobs disappearing to lower cost countries or as a consequence of advancing technology.

Young people are smarter, and more connected to each other and the world. But the world is also becoming more complex, and young people will need more skills and resilience to juggle their finances, relationships, mental and physical health, and home and work life, amid technological and environmental change.

We see education as being the single most important factor in preparing young people for the future. We therefore expect that a high-performing education system is accessible to each young Victorian, equipping them with the foundation skills and qualities they need for the future.

To be accessible, Victorians want the education system to accommodate the differing educational needs and personal circumstances of students in their communities. Some students will need additional services to support their full engagement in schooling.

We want our young people to be well educated in the basics, but also to have diverse skills, to be strong in the face of change, to be capable of developing strong and rich relationships, and to have the social and emotional skills to thrive in modern workplaces and modern society.

We also want our educators to be highly skilled, particularly to oversee the learning progress of their students, including getting the basics right but also to take up new ways of learning to equip young people for the future.

At the same time, public resources are being squeezed by lower economic growth and tighter government budgets. This makes resourcing a high-performing education system challenging. The demands on our education system have never been greater.

The Victorian Government has stepped up to the challenge, committing to fund an extra $3.9 billion to early childhood, schools, TAFEs and universities in the 2015-16 State Budget. It is hoped that all governments, state and federal, can work together to ensure the education of our young people is the best it can be.

Structure and size of the system

There are 2,228 schools in Victoria, providing instruction to over 900,000 students. The majority of students attend Victorian Government schools (Table 1), which the Department of Education and Training (DET) owns and operates.

Nearly 42,000 teaching staff are employed by DET to provide instruction to over 576,000 students attending Government schools.

Table 1. Size of the Victorian school education system

	Government	Catholic	Independent
Number of schools	1,528	493	207
Number of students (FTE)	576,008	207,186	131,966

Source: DET February School Census, February 2015

After a period of relatively low growth between 2000 and 2010, school enrolment growth in the Government sector has increased in recent years (Figure 1). Annual enrolment growth in Government schools is expected to be around a 2 per cent per year.[1] This has an impact on the funding required to operate the system.

Figure 1. Victorian enrolment growth by sector
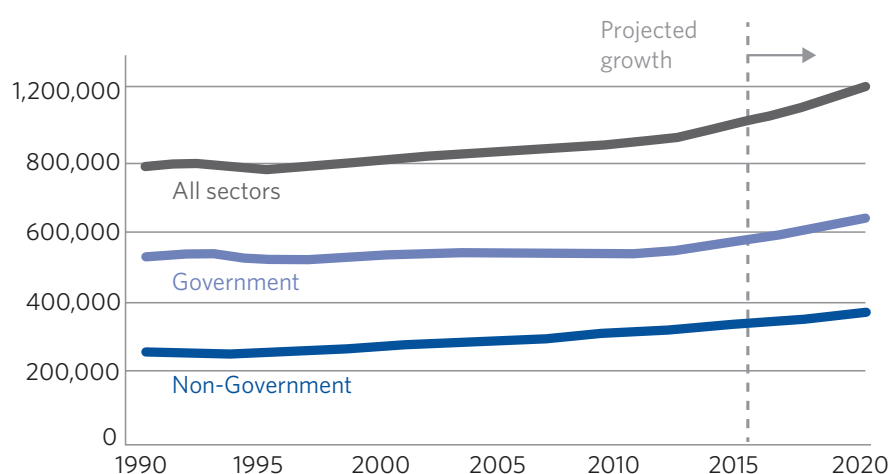
Source: DET February School Census, February 2015 and DET internal analysis

Funding requirements are also impacted by the level of student need. There is a distinct difference in the demographics of students attending the Government sector relative to the non-Government sector. In particular, the Government sector services a relatively larger proportion of schools that have high concentrations of social disadvantage (Figure 2).

Figure 2. Concentration of social disadvantage (Student Family Occupation) by sector
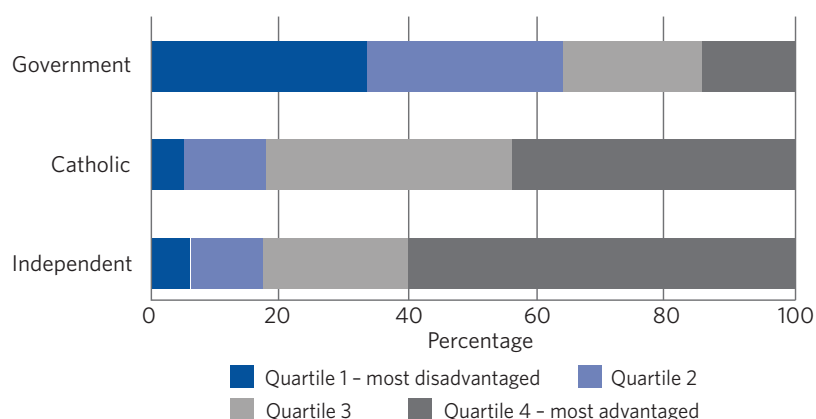
Source: DET August School Census, August 2014 and DET internal analysis

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[1] DET internal analysis. Statewide enrolment projections are based on Victoria in Future 2014 projections, trends in transition rates based on historical enrolments from the February School Census, and market share for each sector from the most recently completed February School Census.

Victorian Government schools are organised into four regions — North-Eastern, North-Western, South-Eastern and South-Western, with close to 400 schools in each (Figure 3). The majority of students, close to 70 per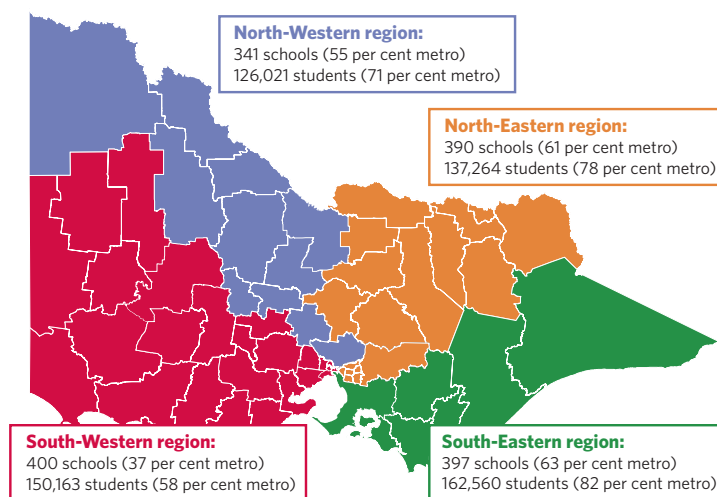 cent, attend schools in metropolitan areas. Though this proportion varies by region, ranging from just over 80 per cent of students in the South-Eastern region to just fewer than 60 per cent in the South-Western region.

Figure 3. Government schools and student numbers by Victorian region [2]

North-Western region:
341 schools (55 per cent metro)
126,021 students (71 per cent metro)

North-Eastern region:
390 schools (61 per cent metro)
137,264 students (78 per cent metro)

South-Western region:
400 schools (37 per cent metro)
150,163 students (58 per cent metro)

South-Eastern region:
397 schools (63 per cent metro)
162,560 students (82 per cent metro)

Source: DET February School Census, February 2015

The profile of student need differs across regions (see Table 2). In relation to social disadvantage, the North-Eastern region has a much higher proportion of schools in the most advantaged SFO quartile (36 per cent) and a lower proportion of schools in the most disadvantaged SFO quartile (13 per cent). The regions also differ in terms of school size and location. There are a much higher proportion of schools in the South-Western region that are considered small and also a slightly higher proportion of schools that are located in rural areas.[3] The relationship between rurality and school size is strong, with over half of rural schools in Victoria being classified as small.

Table 2. Student population in Victorian Government Schools [4]

Region	Proportion of students			Proportion of Schools per SFO quartile
	Small Schools	Rural Schools	With a disability	
North Eastern	9%	11%	3%	
North Western	10%	8%	4%	
South Eastern	8%	8%	4%	
South Western	19%	13%	5%	

■ Quartile 1 — Most disadvantaged ■ Quartile 2 ■ Quartile 3 ■ Quartile 4 — Most advantaged

Source: DET February and August School Census, August 2014, February 2015 and DET internal analysis

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[2] The metro/non-metro breakdown is based on a classification of each local government area (LGA) as either metro or non-metro.

[3] Small and rural are defined as those schools that attract extra funding from Government due to their size and location, respectively.

[4] Data excludes Government schools that do not have an SFO index due to non-participation in the census or their status as a new school.

An overview of Victoria's school system

Educational outcomes

Victoria has high levels of educational attainment, both compared to other States and Territories as well as internationally.

In the latest PISA results[5], both Australia's and Victoria's results were above the OECD average in each of reading, mathematical and scientific literacy. However, Australia's performance has declined over time and Victoria's is generally 'static', while other countries are improving their levels of achievement.

This pattern is reflected in the most recent NAPLAN results, which show that Victoria is one of the three leading jurisdictions (alongside NSW and ACT). Victoria's Year 3 and 5 students outperformed the remaining jurisdictions in most areas of the NAPLAN tests, while the Year 7 and 9 students performed at a level similar to or above all jurisdictions. Despite these strong results, there has been relatively little change in the overall level of achievement over time.

In Victorian Government schools, the percentage of students not meeting the minimum national standard on NAPLAN testing has not improved significantly over time. Further, the data indicates that a larger proportion of students in later years of schooling are not meeting the minimum standard (see Figure 4).

In Australia, and to a lesser extent in Victoria, students with higher socio-economic backgrounds perform better than students from more disadvantaged backgrounds. The performance gap between students of the same age from different backgrounds can be equivalent to up to three years of schooling, according to PISA results.

The performance of Victoria's students — both high performing and low performing — has not grown as much as elsewhere in recent times, which is more acute in later years and for students from more disadvantaged backgrounds.

Figure 4. Proportion of Victorian Government school students below the national minimum standard for NAPLAN, 2015[6]
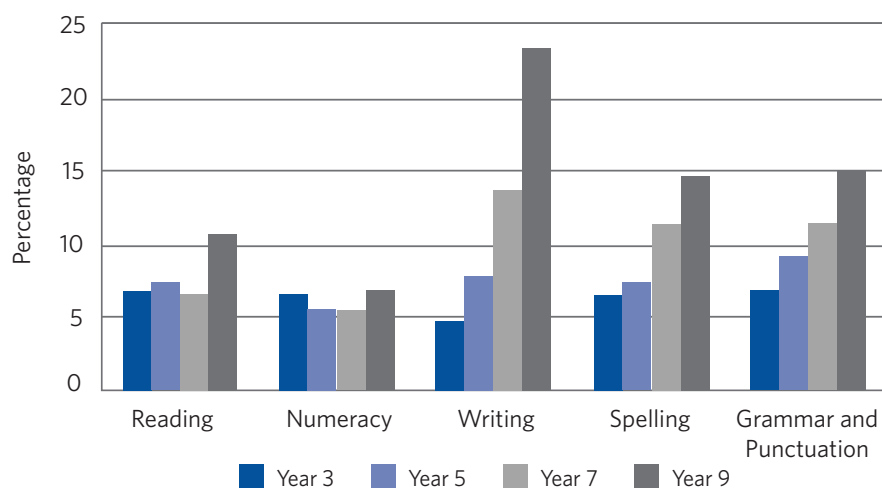
Source: NAPLAN, 2015

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[5] OECD PISA is a survey of the knowledge and skills of 15 year old students in reading, mathematical and scientific literacy which was carried out in August 2012, mainly in industrialised countries.

[6] Students with a language background other than English, who arrived from overseas less than a year before the tests and students with significant disabilities may be exempted from testing. Exempt students do not sit the tests and, for reporting purposes, are considered below the national minimum standard.

Funding for Government schools

Victorian schools derive their funding from three sources — the Victorian Government, the Commonwealth Government and school-generated revenue. The level of funding from these three sources differs across the sectors, as does the average recurrent funding per student. Government schools derive the majority of their funds from the Victorian Government (Figure 5).

Figure 5. Source of recurrent income per student, by sector
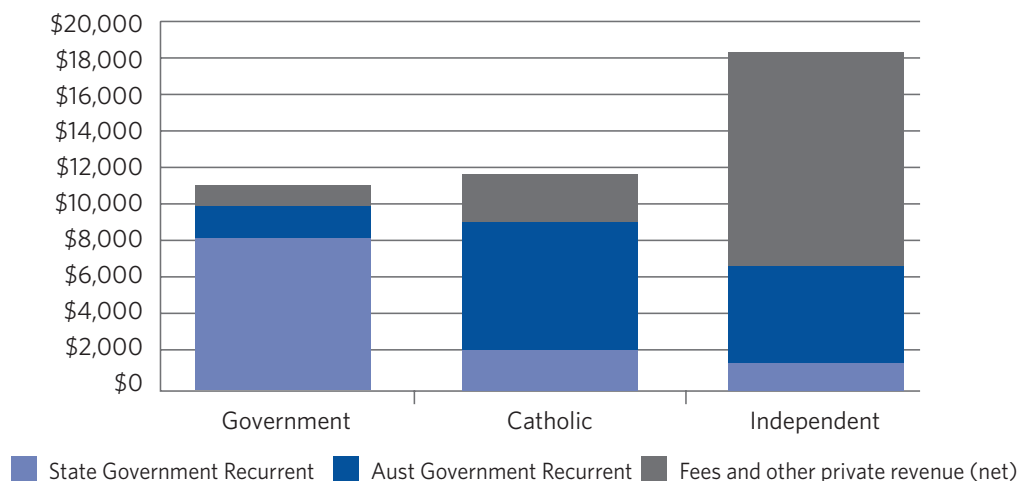
Source: ACARA, 2013

Most of the funding from the Commonwealth Government to Victorian Government schools flows under the National Education Reform Agreement, totalling $1.3 billion in 2015-16. These funds, in addition to the Victorian Government contribution, are allocated to schools via Victoria's funding model, the Student Resource Package (SRP). SRP funding to schools is over $5.5 billion in 2015.

The Victorian Government also provides support to schools outside of the SRP, including:

- Extra funding for schools in areas including maintenance, ICT and Maths and Science Specialists.
- Department support through the Victorian Curriculum and Assessment Authority as well as programs such as Student Transport, VicSmart and Technical Support for Schools and Disability and Wellbeing support.

The Student Resource Package

The SRP is a needs-based funding model, whereby funding is allocated annually to each school on the basis of the needs of the students who attend. To meet the needs of students, schools will spend the annual allocation primarily on staff, buildings and maintenance, and curriculum programs. Schools manage their own budgets and workforce within their annual allocation.

In 2015, the SRP was made up of:

- **Basic Allocation of funds (73% of SRP)** is per-student funding provided to all schools on the basis of enrolments. It is calibrated for each school based on the differing costs associated with years of learning, different types and sizes of schools, and the additional costs imposed by rurality and isolation.
- **Student need funding (15% of SRP)** is additional funding provided to schools to meet the extra learning needs of some students, with main components including:
  » Programs for students with disabilities (11% of SRP). Funding is assessed at the school level or through the Educational Needs Questionnaire, with funding allocated primarily to mainstream or special schools for eligible students with moderate to severe needs. It also provides an allocation for support services in schools, including allowances for additional administrative complexity, interpreter staff for deaf facilities, medical intervention support and special school transport costs.
  » Equity funding (4% of SRP), which includes loadings for schools with concentrations of social disadvantage (as measured by Student Family Occupation), for students who are not proficient in English, and for schools with high levels of mobility and other equity characteristics.
- **School site costs (10% of SRP)** is school-based funding for maintenance, cleaning and operating costs associated with school facilities and grounds.
- **Curriculum programs (2% of SRP)** is funding provided for targeted curriculum programs, including VET in Schools (VETiS), Music and Language programs.

Funds allocated in each of the four components are nominated as credit or cash. Credit is a centrally held budget with the Department of Education and Training, assigned for each school to meet salary and related on-costs for teaching and educational support staff. Cash is provided direct to schools at the beginning of each school term to meet locally incurred expenses such as cleaning and utilities. The vast majority of funding for schools is reflected in its credit budget (approximately 90 per cent). However, transferring between credit and cash and the associated decision making powers around use of these funds rests with the individual school.

Over the past 10 years, SRP funding has grown from $3.6 billion to over $5.5 billion — a compound annual growth rate of 4.5 per cent (see Figure 6). On a per student basis the compound annual growth rate has been 3.8 per cent.

Figure 6. SRP funding between 2005 and 2015
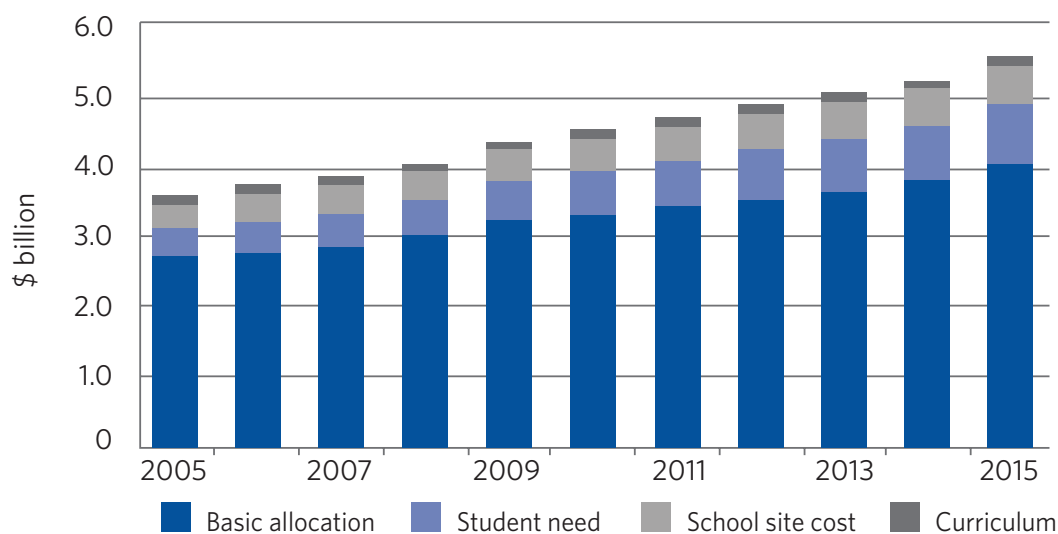
Source: DET internal analysis

The SRP budget cycle has three main phases:

- *Indicative* released in term 3 of the preceding year based on principals enrolment projections.
- *Confirmed* released at the end of term 1 in the current year based on the February school enrolment census numbers.
- *Revised Confirmed* released at the end of term 2 in the current year based on the audited February school enrolment census numbers.

The indicative phase is possibly the most important for a school, as it informs a school's staffing and recruitment decisions for the following year.

Guiding legislation for Victorian schooling

The *Education and Training Reform Act 2006* (the Act) and associated *Education and Training Regulations 2006* (the regulations) is the guiding legislation for Victorian schools. The principles for the provision of school education in Victoria established in the Act are as follows:

- **Access** — all Victorian students should have the opportunity to receive a quality education.
- **Choice** — parents have the right to choose an appropriate educational setting that most suits the learning needs of their child.
- **Information** — a necessary precondition for the exercise of parent choice is the availability of information on education and training providers. School performance information is also required for the community to be assured that public funds are being used to their best advantage.
- **Compulsory education** — the Act makes clear the obligation of parents to ensure their child receives an education up until 17 years of age.
- **Free instruction** — the Act guarantees free instruction at a government school until the completion of Year 12.
- **Secularity and religious instruction** — the government school system is secular, and open to the adherents of any philosophy, religion, or faith.
- **Regulatory regime for all education and training providers** — all schools and providers are expected to deliver a quality education and meet minimum standards.

In respect of this Review, the Act and regulations specify among other things the:

- establishment of government schools.
- learning areas in the curriculum and a statutory authority for curriculum certification.
- terms of employment and performance management of principals, teachers and other staff in schools (including teacher registration and an associated registration authority).
- the composition, objectives, function and powers of school councils (including regulations with respect to School Council delegation, accounts and fundraising).
- specific Ministerial powers to make Orders with respect to school fees, school planning and annual reporting to the school community.

Taken together the Act and associated regulations lay out a statutory framework within which the Victorian government school system is governed, yet with significant flexibility through Ministerial Orders, financial and other delegation and associated mechanisms to facilitate significant reform at both the school and system level where required.

Stakeholder feedback on Victoria's funding system

The Government Schools Funding Review sought input from interested parties on the performance of Victoria's existing Government school funding system and on options to improve the system. The Review has analysed responses from the submission process and consultations, and organised responses according to five key questions:

1. **Is the funding system effectively targeting student need?**
2. **Is the funding formula calibrated to achieve needs-based objectives?**
3. **Is Victoria's funding system transparent?**
4. **Does the system support school leadership and good decision making?**
5. **Are decision-makers within the funding system accountable?**

Is the funding system effectively targeting student need?

In Victoria, Government schools are resourced according to costs required to operate a school and the educational needs of the students who attend each school. On this basis, the intent is for schools to have the capacity to attract, retain and develop high-quality teachers, institute best-practice educational programs and maintain and invest in the school environment to meet the specific needs of the student population.

"Supporting disadvantaged students and schools with higher proportions of disadvantaged students can help improve outcomes for all" — OECD 2015

Schools are primarily resourced through the Student Resource Package (SRP), the funding model used to allocate funds to Government schools. The SRP is a needs-based model that directs extra resources towards students that experience disadvantage as a result of low socio-economic status, low levels of English language proficiency, disability and rural isolation. Funding is also allocated on the basis of school size and the stages of learning, with early primary years being funded at a higher level than later primary years.

Targeting student needs, and in particular disadvantage and the early years of schooling, is acknowledged in the literature as the best practice available to resource student learning and schools:

- Targeting funding to student need has the effect of creating a more equitable funding system, which has been linked to stronger system-wide educational outcomes (OECD 2013, Field, Kuczera and Pont 2007, Wilkinson and Pickett 2009, Jensen et al 2012).
- There is strong evidence in the international literature that the impact of funding produces larger improvements when targeted towards students from disadvantaged backgrounds (Deloitte 2014, OECD 2012, Jackson et al 2015). In Victoria, socio-economic status has been found to be one of the most influential factors in student outcomes (Lamb and Walstab, 2012).
- The impact of funding is greater when directed towards a disadvantaged child's early years. As Heckman (2011) stated *"we can invest early to close disparities and prevent achievement gaps, or we can pay to remediate disparities when they are harder and more expensive to close".*
- Weighting funding according to stages of learning is effective because educational gaps across socioeconomic groups open up at early ages, for both cognitive and non-cognitive skills (Cunha and Heckman, 2007). In Victoria, high performing primary schools have been found to target resources to the earliest years (Lamb and Walstab, 2012).
- School funding arrangements should aim to neutralise the effect of differences in student background and ensure that all students can access a high standard of education regardless of circumstance (Review of Funding for Schooling, 2011).

Stakeholder views

Stakeholder feedback indicates that, while the Victorian funding system is needs-based, there is more that can be done to target funds towards those who need it most. There is general consensus from stakeholders that the system should incorporate both a base level of per student funding that provides universality of access to high quality education plus more targeted funding to close the gap for disadvantaged students.

A common concern is the **Commonwealth's disproportionate funding of non-government schools**, despite the evidence indicating that student needs are greater in Government schools. That the Commonwealth has stepped away from its commitment to fund the Gonski agreement in 2017 and 2018 is seen as unfair. Some cite the Commonwealth's support of non-government schools as exacerbating the 'residualisation' of the government school sector, with non-government schools already at a financial advantage to attract higher performing students.

Some stakeholders are concerned that the SRP does not fund the actual costs borne by schools. This raises the question of the purpose of a funding model and what behaviours it is trying to influence. This issue will be examined further through this Review.

According to many stakeholders, the proportion of SRP funding directed towards equity is too small, at four per cent of the total. The challenge for schools in meeting the high needs of some students has caused some schools to substantially 'cost shift' funding resources away from other uses. Perceived insufficient equity funding is claimed by some as a disincentive for schools to take on high-needs students.

"I don't think you will ever get a perfect formula because every school is so different in so many different ways...What we do have to address though is the inequities in the current system and come up with a system that is fair to all schools taking into account the various differences between them" — Multi-campus regional secondary school

The targeting of equity funds is also an issue. Some see the targeting of schools based on their concentrations of disadvantage as overlooking the needs of schools that may be relatively less disadvantaged overall, but have a number of disadvantaged students nonetheless. Schools which fall just outside the concentration thresholds, or have moderate levels of disadvantage, are also concerned about how equity funding is allocated.

Equity funding in the SRP targeted toward disadvantage is allocated on the basis of the parental occupation of the student. However, some stakeholders believe that this misses the needs of students who are worthy of increased support because they are under-performing.

Victoria's funding system is geared toward providing more resources to students on the basis of need, yet some stakeholders are concerned that a cohort with very high needs — **disengaged students who have left the education system** — are not supported adequately by school funding. It is reported that some 10,000 young people drop out of school each year; however the system does not have sufficient accountability around these young people.

Stakeholders are concerned that funding is not meeting the diverse needs of **students with disability**, compounded by the growth in numbers of students. Many parents have fought for extra funds for their children and will resist schools pooling funds for broader use. Concerns were also raised that children with learning difficulties are not funded in the same ways as students with disabilities.

While not explicitly funded through the SRP, there is a view that **Koorie students** should receive targeted funding and support commensurate with their learning and developmental needs.

Many stakeholders support allocating core funding according to **stages of schooling**, given the large evidence in support of early years education. However, some stakeholders raise the higher level of per-student funding in the SRP that is allocated to secondary schools relative to primary schools as inconsistent with the objective of investing more heavily in the earlier years. This plays out in the observed incongruity that stages of schooling funding for a year 7 student is substantially larger than for a year 6 student. Stakeholders also acknowledge that the breadth of VCE subjects that a secondary school chooses to offer to remain 'competitive' has cost implications.

Stakeholders indicate that funding could better meet the needs of students in rural schools that experience lower educational performance and difficulties in attracting and retaining high-quality staff.

Reform ideas raised by stakeholders

Stakeholders have also provided the Review with a number of reform directions that aim to increase the effectiveness of the funding system in addressing student need. These reform directions encompass ways for the funding system to help lift the performance of disadvantaged and disengaged students, to increase investment in the early years of a child's education and to improve system-wide equity.

Support schools to better target disadvantage

There are several incremental to moderate reforms within the current funding system that have been suggested, which aim to direct funding and resources to students with higher needs.

- Fund the implementation and monitoring of interventions in underperforming schools.
- Additional coaching and mentoring to help schools match resources to student need.
- Re-balance equity funding toward schools with very high levels of concentrations of disadvantage.

More significant reforms that have been suggested involve the use of incentives to influence the actions of schools to better target disadvantage.

- Use competitive grants to support schools to meet the needs of disadvantaged students.
- Attract and retain high quality teachers in disadvantaged schools through added incentives.
- Increase the incentives for schools to accept high-needs students and retain vulnerable students through equity funding that follows the student.
- Improve the re-engagement of students through the use of funding incentives for schools to bring disengaged students back into the mainstream system and increase the role of regions in the accountability for students in their catchments.
- Completely remove equity funding from the SRP, possibly allocating it through prescribed programs to schools and students most in need, accompanied by closer monitoring and accountability.

Better target disability funding

- Noting that a review into the Program for Students with Disabilities is currently underway, investigate ways to improve the funding model — for example through changes to funding rates per disability level or improvements to student eligibility.
- Align any changes to the funding model with improved transparency and accountability mechanisms — including better provision of funding data to schools — to ensure the needs of students with a disability can be better addressed.

Support schools to implement collaborative place-based solutions

- Use grants, funding incentives or guidance to increase partnerships with local government, education and other community service providers to make the school a hub for the community.
- Support schools to partner with local government in providing school and community infrastructure, such as libraries and sports and swimming facilities — particularly when planning for new schools.

Leverage investment in the early years

- Examine the impact of changing the weightings in the Stages of Learning funding component of the SRP to invest more heavily in the early years of education.
- Support schools to partner with local government to incorporate early childhood services on school sites — particularly when planning for new schools and early childhood facilities.

Improve system-wide equity

- Work with the Commonwealth Government on school funding arrangements for the period post 2017, through forums such as COAG and the Ministerial Council, as well as through processes such as the Reform of the Federation White Paper.
- Increase accountability for Government funds in the government and non-government sectors.

Stakeholders have also suggested reforms that fundamentally change the way in which funding is delivered to Victorian schools and would take considerable effort to implement.

- Via appropriate accountability measures, ensure that the SRP and funding allocation models used by the non-government sector are needs-based, as per the 2013 National Education Reform Agreement.
- Allocate funds on the basis of student outcomes rather than on the basis of student background, noting this would require significant improvement in the quality of data collected at the student level.

Is the funding formula calibrated to achieve needs-based objectives?

Trust and confidence in school funding is achieved when the model used to allocate funds is fair, logical, practical and results in value for money.

Victoria was the first State to introduce a needs-based school funding model — the SRP in 2005 — and over time has been seen as a benchmark for effective resource allocation.

In recent years, other States have followed Victoria's lead, shifting towards needs-based models. NSW is in the process of rolling out its Resource Allocation Model (RAM), which will be fully implemented in 2016. The RAM is comprised of a base allocation (that includes funding for school operations, workforce, buildings and maintenance, climate and location), equity loadings for social disadvantage, indigineity, disability and English language proficiency, as well as targeted, individual student funding. Western Australia has implemented its Student-Centred Funding Model, which includes a per-student allocation, size and location allocations, equity loadings and targeted initiatives, all delivered as a one line budget.

Setting aside the quantum of resources, the funding model and supporting architecture is more effective when it:

- can adapt to a changing environment, economy, and the characteristics of students and schools.
- reliably distributes funding to schools in a clear and efficient way.
- promotes funding certainty across school terms and into future years.
- utilises up to date and evidence-based information.

While feedback from stakeholders has indicated that the SRP can improve in each of these areas, the two most substantive concerns relate to the perceived mismatch between SRP allocations and real costs, and the need to update the SRP funding formula.

Stakeholder views

Stakeholders recognise that school funding is derived from constrained resources. This means that the opportunity to increase funding in specific areas has to be considered in the context of government decision-making around competing demands for finite resources, and the appetite to redistribute funds away from other areas.

Some stakeholders raise the difficulties in managing the **workforce component of school budgets** within a school's SRP allocation. Some schools consider funding to be adequate. Others are employing effective management approaches to maintain balanced staffing profiles. However, some schools indicate that the credit budget of the SRP (intended for salaries) does not adequately fund schools that have proportionately more teachers at the top of the salary range. Some primary schools raise the difficulty in funding administration staff. There is also concern around the cost implication of requirements such as occupational health and safety and arrangements to cover leave entitlements.

"The current model is essentially a good model, but some aspects are indeed frustrating. It provides us with some flexibility and helps us to service our school community in ways that would not have been possible in the past. Over the last few years our budgets have become less transparent because more items have been moved into the core funding allocation. Therefore we cannot identify whether the overall SRP is keeping up with inflation and extra costs"
– Large outer metropolitan primary school

A number of stakeholders are concerned about the amount of funding that is currently provided for **buildings and maintenance** and grounds allowance, particularly in schools with old infrastructure. There is a strong view that SRP funding has not kept pace with real price growth, with concerns around funding for **utilities and cleaning** especially acute. Further, stakeholders indicate that SRP maintenance funding is not necessarily well aligned to the way new capital funding is allocated.

Funding for **ICT equipment** and services has also been raised as an issue. The increasing use of technology in the delivery of education is expected to raise costs further.

To meet the perceived funding shortfall, some schools are turning increasingly to **parent payments** or fundraising activities, which some feel puts pressure on school communities. Alternatively, schools are 'cost shifting' funds intended for other purposes. This has flow-on effects to other aspects of a school's operation. An alternative, however, is that shifting funding based on the local needs of schools and students is desired under a needs-based model.

Stakeholders are concerned that budgets for **curriculum programs** are being squeezed by demands on the school budget, with VETiS, arts studies and languages often cited among examples.

Stakeholders also cite insufficient incentives to **support collaboration** between schools, which in itself could create system and cost efficiencies.

To match the increasing role schools are playing in providing more holistic support to students and families more effectively target disadvantage, schools would like to see more funding for **welfare and intervention services.**

The SRP is split into four main components: the basic allocation, student need funding, school site costs and curriculum funding. Each of these components is supported by a range of funding lines within the model, which aim to direct funding on the basis of policy intent. There is a view amongst stakeholders that, while the broad policy intent may be sound in many cases, **strengthening and rationalising SRP funding lines** is warranted.

Equity funding under the SRP is allocated on the basis of parent occupation (Student Family Occupation, SFO). Some stakeholders question whether this is the best indicator of socio-economic status, given it does not account for parent education. In addition, there are concerns that the method used to collect parent occupation data may lead to inaccurate data.

The fact that equity funding does not always "follow the student", but rather is based on the concentration of disadvantage within a school, is an issue for some stakeholders. They also raise the issue of English as an additional language (EAL) funding; indicating the possibility of using a better measure of need, rather than the current model that currently uses a proxy measure for English proficiency.

Some stakeholders are concerned that the population in Melbourne and the provincial cities has grown significantly over the past two decades, yet the definition of **rurality** in the funding model has not been updated to reflect these changes. More specifically, stakeholders indicate that there needs to be a better distinction between larger provincial centres, and rural and remote communities and also an examination into whether the cost pressures that rural schools face are due to their size or their location.

Funding for **small schools** has also been raised as a concern, with some stakeholders indicating that the SRP ultimately benefits larger schools over smaller ones. This is particularly acute for schools with dropping enrolments, as they face significant volatility in their budget, which in turn impedes their ability to plan for the coming year. In contrast, some stakeholders argue that Government funding many small schools — particularly in metropolitan areas — is inefficient.

There are several instances where the **methodology underpinning the SRP** funding allocation may warrant further investigation. Several stakeholders indicate that the funding rationale for different school types — specialist and mainstream schools, secondary schools and senior secondary schools, portability to alternative settings — should be examined to ensure allocations are equitable.

Schools indicated that the treatment of **cleaning and maintenance** in the SRP is confusing. The methodology for the **Instrumental Music Program** and **Alternative Settings** appears to be unclear and which instead largely reflects historical funding allocations. Some stakeholders indicate that **VETiS** funding is confusing and inflexible. However, there is also concern that the number of VETiS courses offered is too large and poorly matched to labour market demand and policy intent.

There is consistent feedback that it is important for schools to have greater **funding certainty** from year to year. This would improve the ability of principals to better implement their schools' three year strategic plans. As a result of SRP timeframes, some principals do not feel as though they have enough time to make informed workforce decisions, and have also cited difficulties in bearing the cost of students who enrol at a school after the February Census date.

Reform ideas raised by stakeholders

Stakeholders have suggested a number of reforms to the SRP in order to better target student needs. These reform directions encompass ways to increase the robustness of the model and provide more certainty around funding to schools. The options presented range from incremental changes to SRP funding formulae through to much larger reforms that fundamentally change the way in which the funding model is calibrated, including in some instances taking particular funding components out of the SRP and delivering them in alternative ways.

Increase the robustness of the SRP

Stakeholders have indicated that there are a number of methodological changes that could be made to the SRP to ensure funding to schools is in line with real costs and aligned to a robust policy rationale.

- Introduce a formal requirement that a review of the SRP methodology is undertaken on a cyclical basis to ensure that funding rates are up to date.
- Update the rurality boundary used to demarcate Melbourne and provincial centres.
- Examine the impact of implementing a different indicator of social disadvantage, for example Student Family Occupation and Education (SFOE).
- Ensure that the funding formula is aligned to the policy intent in areas such as cleaning and grounds allowance, WorkCover, VETiS, Instrumental Music and Alternative Settings.
- Simplify and consolidate funding lines that have common policy intent — for example funding lines for rurality and for small schools.

Improve the effectiveness and efficiency of school site funding

Incremental to moderate reforms in this area include:

- target any additional SRP funding towards buildings and maintenance, utilities, cleaning, grounds allowance, welfare and intervention services to better reflect actual costs.
- improve asset management capability in schools through training and update the associated SRP funding methodology. This could be done by better linking SRP maintenance allocations to other planned capital investment priorities.
- assess the value for money and wider economic benefits of combining contracts for school site costs, and extending the timespan of contracted services.

More significant reforms suggested by stakeholders take aspects of school site funding out of the SRP.

- Consider the relative merits of commercialising or outsourcing various elements of the SRP, for example by adopting the Public Private Partnerships (PPP) model to manage assets.
- Remove funding from the SRP and centralise the role of allocating funds through prescribed programs to schools most in need.
- Improve the cost-effectiveness of small and/or rural schools.
- Encourage school-to-school collaboration to better utilise resources through the pooling of administrative services, sharing of curriculum programs or through shared governance arrangements.
- Reduce or better leverage school grounds for schools that have larger designations than they need.

Provide more funding certainty to schools

- Investigate ways to provide schools with their indicative funding allocations earlier in the year, noting this is influenced by other processes, such as Government budgets and the August School Census.
- Investigate ways to better align budget allocations to student numbers in the case of enrolment changes after the February School Census.
- Better apportion payments to schools to align with higher costs incurred earlier in the year.
- Provide tools to schools to help multi-year budget planning based on indicative future SRP allocations.

Is Victoria's school funding system transparent?

The performance of any schools funding system will depend to a large extent on the trust and confidence the community has in the integrity of the system itself. Integrity is improved when it is clear who is funded, the rationale for funding, why funding changes over time, and why different schools are funded at different levels. This is difficult because funding systems are complex, made even more complicated by the operation of our federated funding system.

Improvement in funding system transparency can also assist in ensuring that all actors in the education system — education departments, principals and councils, and governments, are held to account for the performance of the system.

This intention to improve transparency for accountability is already expressed through the:

- findings of **The Review of Funding for Schooling:** which identifies funding system transparency as important to ensure parents can see why their child's school is funded at a certain level, schools can understand why school systems and individual schools receive the funding they do, and the public can see what is actually being achieved for the public resources invested (Commonwealth of Australia, 2011).
- principles of the **Education and Training Reform Act 2006:** which promote the provision of 'information concerning the performance of education and training providers [being made] publically available' (State of Victoria, 2006).
- **Heads of Agreement between Victoria and the Commonwealth of Australia and the State of Victoria on National Education Reform:** in which Victoria committed to ensuring that 'schools provide detailed information to their communities and beyond about what students achieve, in a readily-accessible way' and making school improvement plans available online (Heads of Agreement, 2011).

In Victoria, funding information is communicated to schools and the community via the SRP Guide, School Annual Reports and the MySchool website. All Victorian government schools are equipped with a computer system to support student administration, financial management and reporting called 'Computerised Administrative System Environment for Schools' (CASES21). Some information on school funding is also available in Budget Papers and Department Annual Reports. These documents provide an overview of the amount of funding expended on education, but less so on the methodology used to distribute funding or its connection to intended educational outcomes.

Information transparency is valued by policy makers and school system operators as a mechanism for ensuring the learning and development outcomes of children. This view of transparency is also one supported by stakeholders.

"Victorian Government School Funding, or at least the way it is calculated, monitored and dispensed is, in my view, incomprehensible" — Parent, regional primary school

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Stakeholder views

Stakeholders largely believe that transparency around school funding needs to be improved.

Many schools and community members indicate that there would be greater confidence in the system if there was more readily-accessible information on both funding arrangements between the levels of Government and, more specifically, the funding rationale underpinning the SRP. Stakeholders do not have a clear view of the relationship between the Victorian and Commonwealth governments on school funding. As such, a common concern for stakeholders relates to the proportionate shares between the two levels of Government of 'Gonski money', which many are interpreting as the additional funding in the system under the Gonksi agreement, rather than all the funding flowing as a result of the agreement.

On the SRP, some stakeholders indicate that while the funding model is designed and intended to be transparent, information about it is **fragmented and complex.** Some schools find it hard to understand why they are funded to a certain amount, and why this may differ from a school in a similar area. Some schools would like to see improved communication from DET about the **methodology underpinning the SRP**, not through the provision of 'more' information but rather 'simpler' information.

Experienced principals are familiar with the SRP, but for others — particularly **new principals** — the lack of clarity and transparency adds to the challenge of making resourcing decisions in the complex school environment. Concerns have also been raised by schools around the difficulty in using CASES21, with specific reference to the financial reports that it produces.

In addition to building confidence in the system, stakeholders want to see increased transparency in funding and performance-related information for the purpose of **improving student outcomes.**

Community stakeholders, including school council members and parents, argue that principals need to be more transparent in how they **utilise the public funding** their schools receive. Some go further and argue that a school should ensure that funding allocated according to **student needs** is specifically used for its intended purpose. Some stakeholders are seeking greater transparency by schools on the alignment between school strategic plans and the use of the funding schools receive.

Reform ideas raised by stakeholders

Reform ideas raised by stakeholders range from improvements in the quality of information currently provided to school communities, to more substantive reforms to data, systems and regulation that transform funding and performance related information flows between DET, schools and the community.

Improve public understanding of school funding

- Develop a public funding portal containing system and school funding data. This information could be benchmarked against other sectors and systems, with information about funding targeted to address student needs in the areas such as disability, indigeneity and low-SES.
- Improve the quality of communications between school principals and school councils, to ensure school councils are adequately informed about resource decision making by principals.
- Integrate school funding information with strategic plans and school implementation plans, to show how schools are using funding in pursuit of their strategic goals. This could be further linked to school performance information, for example that provided via MySchool or the Student, Staff and Parent Opinion Survey data.

Better provision of information from DET to schools

- Develop a clearer SRP guide, which could be incorporated into the school funding portal.
- Improve the functionality of DET financial information services, in particular CASES21.

Does the system effectively support good decision making?

As a consequence of reforms by successive Victorian governments, the Victorian government school education system is one of the most autonomous systems in the world. This autonomy places schools at the heart of local communities, providing schools with a tremendous opportunity to engage with communities to meet the learning and development needs of all children.

At the centre of this school-to-community relationship is the principal and the increasingly complex role they play in the leadership of their schools. How principals exercise their autonomy has a significant bearing on how the funding system can, and should, be used to promote educational excellence.

School autonomy

School autonomy is a complex school management model and, across the world, there is significant variability in the rationale for why autonomy is pursued and how it is employed (European Commission, 2007).

Nonetheless there are a number of key themes that emerge from the literature about the pre-conditions for successfully using school autonomy to improve outcomes. In summary:

- school autonomy is effective in developed nations where education institutions are mature, but less so elsewhere (Institute for Economic Research, 2013).
- in developed nations with mature systems, school autonomy is only effective where it works in concert with integrated models for accountability and assessment (World Bank, 2011).
- while autonomy is a necessary component of a mature, high-performing school system, counter to popular belief 'more rather than less systemic support is needed for the potential of school autonomy to be realised' (PTR Consulting, 2015), a view supported in the evaluation of the Western Australian 'Independent Public School' program (University of Melbourne, 2013).

The research on school autonomy is broadly consistent with the views of stakeholders who accept resource allocation and related decisions in schools should occur as closely to students and communities as possible. This 'principle of subsidiarity' underpins school autonomy in Victoria, with DET and stakeholders acknowledging benefits to include:

- increased funding flexibility relative to previous school funding approaches.
- responsiveness to changes in student profile in the majority of school contexts.
- increased school and community control over resource allocation (and associated) decisions.

Principal decision making

In a labour intensive, human services industry such as school education, resource allocation decisions involve the employment and support of teachers, allied professional groups, a variety of administrative and support staff (the cost of staff is approximately 90 per cent of a school's budget) and contractors.

Within a framework set by DET, principals in Government schools spend a large amount of their time making purchasing decisions within complex labour, goods and services markets to ensure their schools can meet the learning and development needs of their mix of students.

Principals are often making these decisions in competition with their peers, possibly doing so in 'thin' markets (for example, some rural labour and service markets) which can increase costs and delays. Various state-wide enterprise bargaining agreements (EBA) will impact on these decisions, for example in relation to employing teachers with specific senior-secondary methods or VET related qualifications, securing appropriate casual relief teacher coverage and the management and funding of teachers declared excess.

Notwithstanding the complexity of principal decision making, their views and those of broader stakeholders' with respect to school autonomy, remain, on balance, positive.

Stakeholder views

Stakeholders generally acknowledge that **developing the capacity** of principals is critical to schools maximising the effectiveness of autonomous decision making. They argue that training for principals and School Council should improve, that some principals facilitate better school governance structures and that collaboration among principals from different schools is an under used source of value.

"There is not enough 'just in time' training for school councillors to fully understand the complexities and intricacies of school funding" — Association of Business Managers in Victorian State Schools

Some stakeholders are concerned that **increased administrative demands** on schools reduce the amount of time principals can allocate to the core issue of student performance. This is particularly acute in the functions associated with fixed costs (for example, built infrastructure, ICT support, utilities etc.).

Also, **lesser-experienced principals** can encounter trouble in non-teaching domains, for example raising local funds, or managing staffing issues within the parameters of the EBA.

Stakeholders indicate that **'professionalisation' of the business manager role** would improve principal decision making. This could be achieved by better training, more collaboration among business managers, and integrating business managers more in resource allocation decisions in schools.

Finally, it is broadly accepted that funding adequacy, flexibility and efficiency are critical pre-conditions for schools to exercise autonomy effectively.

Reform ideas raised by stakeholders

In the course of stakeholder consultations a number of reform ideas in the area of principal decision making emerged. These ideas relate to improving the existing framework for school autonomy by building school capacity, through to various approaches to reforming the scope of school autonomy in different school contexts.

Improve school capacity for autonomy

- Improve the quality and accessibility of existing DET services (including through the Bastow Institute for Educational Leadership), for example in relation to:
  » the induction, mentoring, and professional development of principals, business managers and school councils (particularly with respect to shifting the leadership culture to one of delegated leadership)
  » workforce planning, development and performance management (particularly with respect to managing both the performance and profile of the workforce within existing performance management frameworks), and
  » information sharing, training and incentives that facilitate, capture and communicate innovative collaboration between schools to improve provision and lift outcomes.

- Further DET and regional support to increase teacher mobility, in order to develop teacher practice and better meet student needs. Augment public funding by improving DET advice and support to schools in relation to:
  » raising revenue within the necessary constraints of the Parent Payments Policy, as well as
  » reducing costs through effective partnerships with local government, philanthropic organisations, business and support networks.

One recurring issue across a range of stakeholders is the need to ensure, within existing industrial frameworks, that there is cultural change in school leadership in which principals are confident in fully utilising their autonomy to address constraints and explore opportunities associated with the profile of their workforce, for example through:

- the allocation of teacher instructional loads across a school to best meet the needs of children.
- utilising the excess staffing and performance management provisions the EBA and associated DET guidelines.
- ensuring teachers are focused on instruction by making better use of administrative and education services staff and other workforce flexibilities afforded via the 'permission to teach' (or PTT) arrangements facilitated through the Victorian Institute of Teaching.

Rebalance autonomy in favour of pedagogical leadership

- DET and its regions take back responsibility for administering various functions associated with fixed costs, for example built infrastructure, ICT support, and utilities management.

Differentiated autonomy

Finally, no examination of improving autonomy should seek to suggest that 'one size fits all'. It is important to acknowledge that schools operate in a variety of social contexts and school performance varies significantly across the system for a variety of reasons. Differentiated autonomy might include for example:

- frameworks which more explicitly link the level (or scope) of school autonomy DET to school performance.
- reformed school governance arrangements so that school councils are adequately supported to have (or develop) an appropriate balance of capabilities, or where schools determine it appropriate, federated approaches to school governance are facilitated by DET.

Are the decision makers within the funding system accountable?

Seeking to improve the way transparency and school autonomy are each supported by the system is an important focus of reform. However for such reforms to be more than ends in themselves, the actors in the funding system — DET, principals and school councils — need to be accountable for their resourcing decisions.

For the purposes of this Review, 'accountability' does not refer to the subject of the recent Independent Broad-based Anti-corruption Commission (IBAC) investigation. Financial probity will be addressed through the government response to Operation Ord and overseen by the Victorian Public Service Commissioner.

Accountability in the context of this Review extends to the responsibilities and performance of schools and the broader system for improving student learning outcomes. This ultimately determines if public value has been derived from the public investment.

In terms of the accountability of practitioners, the research clearly supports approaches to teaching and learning that, via teacher collaboration and effective performance management, ensure teachers are accountable for their practice and are constantly working to improve it (Taylor and Tyler, 2011).

In terms of accountability for leadership of a school more broadly, the World Bank frames accountability in narrower, managerial terms as 'the act of compliance with the rules and regulations of school governance'; 'reporting to those with oversight authority over the school'; and/or 'linking rewards and sanctions to expected results' (World Bank, 2011).

Each of these characterisations of accountability are well understood by stakeholders, however within the context of an autonomous school education system, improving accountability requires striking a balance between regulating for improvement in student learning outcomes, and empowering schools to achieve these same outcomes.

Stakeholder views

Stakeholders agree that accountability is a critical component of Victoria's autonomous school education system. However schools and related stakeholder groups argue that:

• DET needs to better support schools in delivering the curriculum by ensuring that the accountability system is linked more closely to **lifting student and school performance**, and not simply driving administrative, compliance activity.

• any **increased accountability should be targeted** at those schools requiring it most.

Looking first at **system level accountability**, schools report that financial management is complex and that DET could improve assistance to schools in both understanding their performance and financial accountability requirements and meeting them (particularly for new principals).

Stakeholder groups highlighted the level of accountability Victorian government schools face relative to schools in other Victorian sectors as inequitable.

Some stakeholder groups also believe that a **lack of accountability by DET and regional support services** diminishes their responsiveness to schools, issues also identified during the recent DET consultations on strengthening DET regional relationships and support.

"Accountability measures must be applied to all schools that receive targeted funding to ensure that their chosen strategies to address disadvantage are supported by research as being effective and appropriate for the cohort" — Principal, metropolitan community school

In respect of **school level accountability**, some stakeholders believe that schools are not particularly accountable for how spending relates to student performance, or that performance accountability to communities is too often communicated in narrow terms (for example, around literacy and numeracy only).

Stakeholders argue that this approach to accountability has an impact on the ability of the system to **monitor school performance**, with particular concern for how such approaches to accountability impact the interests of low-SES students and cohorts of children with complex and specific needs (for example, disability, Indigenous etc.).

Stakeholders in DET and some schools have also identified concerns about the **historical program funding models** that make funding available to selected schools on a basis other than the student enrolment (for example, the Instrumental Music program), raising particular questions about the capacity for the system to provide a policy rationale and ensure accountability for programs funded in this way.

System and school level stakeholders generally believe **accountability reform should not seek to unduly constrain schools autonomy or increase red tape.** Further, they acknowledge that poorly designed accountability systems have the potential to create a lot of ineffective accountability activity in a system as well as create incentives for 'gaming'.

Reform ideas raised by stakeholders

In the course of this Review a number of reform ideas in the area of accountability have been identified by stakeholders. In general terms these ideas are concerned with ensuring that accountability is integrated, purposeful and efficient. Ideas for reforming the scope of accountability in various contexts and at different levels of the system were also identified.

Strengthened accountability frameworks

Ensure that existing accountability frameworks are:

- informed by contemporary research.
- consistent for schools and practitioners.
- applied effectively in the local context.
- supported by the right tools, information and technology.

Improved school accountability to communities

- Introduce more effective annual reporting that provides parents and communities with information on how school resources are used. This could include a requirement that schools report financial and performance information against their published strategic directions, or
- A more ambitious reform is to develop an annual reporting standard for all Victorian schools linked to school registration.

Increase regional accountability

- Develop a regional accountability framework for the re-engagement of disengaged and vulnerable students and ensure they have defined pathways to further education and employment.

Differentiated accountability

Finally, as is the case with school autonomy, schools clearly operate in differing contexts and differentiated accountability was identified as one way of ensuring accountability is more purposeful. Approaches might include, for example:

- accountability frameworks which more explicitly link the level of DET and regional oversight of schools to their performance, or
- increased independence of school oversight by tasking a regulator with responsibility for school performance audits, for example like those performed by the United Kingdom's Office for Standards in Education, Children's Services and Skills (Ofsted).

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