

Departmental response to NSRB Issues Paper on SRS Indexation arrangements - confidential

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Overarching comments

The NSW Department of Education thanks the National School Resourcing Board (NSRB) for their work and acknowledge the tight timeframes under which this work is operating. On balance we support the maintenance of the current SRS indexation arrangements.

The department:

- supports policy focused on likely future cost structures of appropriately funded schools which meet the educational outcomes inherent in the Schooling Resource Standard (SRS) design
- queries whether focusing on less relevant historical cost structures and arrangements of all schools is appropriate to set the future SRS indexation rate policy, given extraordinary circumstances faced by all Australian schools and NSW schools in particular in recent years (COVID-19, natural disasters etc)
- notes that the original 2011 Gonski Review of Funding for Schooling envisaged that reviews of the SRS indexation rates would refer to only current “reference”¹ schools
- proposes the past is unlikely to be a reliable guide for the future cost structures, noting that:
 - the time frame of 2019-2023 does not lend itself to full and robust analysis
 - most states and territories are not yet funding their government schools at 100 percent of the SRS
- recognises the significant uncertainty associated with SRS-related budgeting for schools, systems and governments. This arises because the many factors informing the SRS are not finalised until the end of the year to which the SRS applies. These factors include student demographics and Capacity to Contribute (CTC) adjustments. The SRS indexation rate is just one of numerous factors contributing to this uncertainty and its impact should not be considered in isolation.

¹ Reference schools being those schools where at least 80% of students are exceeding NAPLAN national minimum standards for reading and numeracy for 3 years in a row.

The department has separately addressed each of the four issues raised in the Issues Paper below.

Issue 1: Appropriateness of current indexation arrangements

The NSRB has requested a breakdown of non-salary operating expenses for NSW public schools. We would like to highlight that schools necessarily operate differently now to how they did over the last 5 years, and their current and future cost structures will reflect this. For example, addressing teacher workforce issues, school attendance, student wellbeing and inequity have taken increasing prominence.

Whilst the department cannot readily provide this historical breakdown of SRS type expenditure into detailed non-salary items, and noting these concerns there were many substantial non-salary related items including:

- Expenditure to address exceptional circumstances such as the *North Coast Flood Recovery Education Support Package*.
- Significant expenses to support ongoing maintenance of infrastructure for public schools that are growing due to substantial increases in building costs.
- Cleaning costs are a major cost for the department that increased dramatically during COVID-19 due to enhanced cleaning requirements.
- COVID-19 associated expenditure related to provision of remote schooling, protective equipment, testing kits, cleaning, and air quality assurance programs. These costs were essentially one-off.

Issue 2: Suitability of the current indexation floor

The department acknowledges the importance of an indexation funding floor, particularly for small non-systemic schools with limited financial resources. The capacity of schools to absorb reductions in per student funding may be limited and a floor may help address this.

The appropriate exact level of an SRS indexation floor is not immediately obvious without detailed national level analysis. An indexation floor of 3% may limit the ability of states and territories to manage overall state budgets. Additionally in a low wage growth environment, an indexation floor of 3% may be excessive.

We note that if current arrangements were to lead to an untenable level of indexation in any year, there is capacity for the Federal Minister of Education to prescribe a rate that has no specific relationship to the indexation floor.

Issue 3: Structure and weighting of the composite index

We do not believe that SRS indexation rates, or expectations of those rates are used to inform or influence NSW government policy regarding input prices.

Issue 4: Timing of SRS indexation rates

The timing of SRS indexation rates contributes to uncertainty of the exact public funding levels to support individual schools or systems (which then may reallocate that funding to schools) in any given year. However, this issue must be considered in the wider context of the SRS for a school or system, which may not be finally determined until after the year to which it applies has passed. From the perspective of non-systemic individual schools, reducing funding uncertainty may be desired. Setting the indexation rate at an earlier date would remove some uncertainty but it would not eliminate it.

Setting spending targets ahead of the period to which they apply, or applying appropriate materiality buffers to the measurement of state contributions may be the most appropriate response to this uncertainty.

In response to the issue of funding and budgeting certainty for the NSW Department of Education, the indexation floor needs to be considered within the wider context of legislative funding targets which are not finalised until after the period to which they apply. Both NSW and Commonwealth minimum funding requirements for government and non-government schools are determined with reference to the SRS, which itself is not formally confirmed until January in the year following that to which it applies.

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