



Australian Government
Department of Education and Training

Our Ref: EC18-001935

A/g Deputy Secretary
Ms Alex Gordon

Senator Dean Smith
Senator for Western Australia
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Senator Smith

**Questions on Notice and Supplementary Statement
to the Joint Committee on the ANAO Report
*Monitoring the Impact of Australian Government School Funding***

On Wednesday, 15 August 2018 the Joint Committee of Public Accounts and Audit (the Joint Committee) held an inquiry into the ANAO Report *Monitoring the Impact of Australian Government School Funding* (the ANAO Report).

At the inquiry the department undertook to provide responses to a number of verbal Questions on Notice, which are included with this letter. I am also providing this supplementary statement to give further clarity on issues that were raised at the inquiry and to support your deliberations.

Legislative Environment

The *Australian Education Act 2013* (the Act) and the *Australian Education Regulation 2013* (the Regulation) provides the legislative authority for the Department of Education and Training (the department) to administer Commonwealth funding for schooling to approved authorities for schools, block grant authorities and non-government representative bodies.

Authorities are required to comply with the requirements of the Act, irrespective of any arrangement the department has in place. While the Act and Regulation set out the legislative requirements for organisations that receive funding, it does not impose express legislative requirements on the department with respect to checking, investigating, or assurance of compliance. Any suggestion that the department has been in breach of the Act or Regulations is therefore incorrect.

Opportunity through learning

When administering any Government program, including those based within a legislative framework, public officials have general duties under the *Public Governance, Performance and Accountability Act 2013*, and the broader framework of the APS Values and APS Code of Conduct as set out in the *Public Service Act 1999*. It is within this general framework that there is an expectation that the department has in place a reasonable and proportionate approach to ensuring that requirements on funding provided under the Act and the Regulation are being met.

Financial compliance questionnaire

Approved authorities are required to complete a financial questionnaire each year to demonstrate compliance with the financial requirements under the Act. The financial questionnaire is a collection of financial data at a school entity level that includes information about income, expenditure, assets and liabilities from all non-government schools receiving Australian Government general recurrent grant funding.

In addition to the financial questionnaire, the department started collecting audited financial statements for the first time in 2017 (2016 data). Each financial questionnaire and audited financial statement is reviewed by the department to check the accuracy of the data and to look for any indication that the approved authority is financially operating in a manner inconsistent with the requirements of the Act and Regulation.

The department conducts an annual Financial Questionnaire Verification Exercise (FQVE) to actively confirm the veracity of information provided in the financial questionnaire. Schools are chosen to participate in the FQVE either through a random sampling methodology or by direct targeting where they have been selected through other compliance actions or tipoffs.

The ANAO report recommended the department consider a risk based approach to the sampling of the FQVE rather than the current random selection. A review of the methodology used in selecting schools for the FQVE has been planned for the current financial year and coincides with the data from new questions being available.

Compliance Certificate

The department monitors compliance of government and non-government approved authorities with key ongoing policy requirements through the compliance certificate process. Policy requirements include the implementation of the Australian Curriculum and participation in the National Assessment Program.

The compliance certificate is an annual self-reported questionnaire of compliance with policy requirements under the Act. The department has been conducting the compliance certificate and its precursor policy compliance reviews since 2006.

In response to Recommendation 1 of the ANAO Report for the 2016 compliance certificate, the department implemented a considerably more robust verification exercise. Assisted by the Australian Curriculum, Assessment and Reporting Authority, the department assessed the information provided by all eight state and territory governments and all 932 non-government approved authorities. Previously only a sample of responses were assessed in any detail.

Of the non-government approved authorities, 39 self-reported non-compliance with one or more of the policy requirements. The department assessed all explanations provided by these authorities and found that six failed to demonstrate sufficient grounds for exemption from the requirements. The department sought and assessed further information from these authorities and determined that no further compliance action was necessary.

The department also introduced a random sampling verification exercise to confirm the compliance checks of approved authorities that self-report are *compliant* with the Act and Regulations. Of the 893 non-government authorities reporting compliance, two approved system authorities and 66 authorities for non-systemic schools (together, responsible for 229 schools) were requested to provide evidence to support their claims of compliance. The department reviewed the evidence confirming compliance and concluded that all of the sampled authorities met their legislative requirements.

Based on the outcomes of the random sampling exercise, the department has high confidence that there is strong compliance across the schooling sector with the legislated ongoing policy requirements.

The department is about to conduct the compliance certificate information collection in 2018 (for the 2017 school year) and will undertake a robust verification exercise similar to that used for the 2016 certificate.

Implementation plans

Under the Act in effect from 1 January 2014 to 31 December 2017, approved authorities for more than one school that were considered to be 'participating' under the Act were required to have an implementation plan in place for reform activities under the National Plan for School Improvement. Each plan was meant to be for six years and reviewed at the end of this period.

'Participating' states were those states that were signatory to the National Education Reform Agreement and had an agreed bilateral implementation plan. Only three states were considered to be 'participating' under the Act: New South Wales, South Australia and the Australian Capital Territory.

During 2014, the department held consultations with education authorities from the government and non-government sectors. Feedback from all sectors was that implementation plans were a significant burden on schools. Consistent with the

government's deregulation agenda and in an effort to reduce regulatory burden on schools, the government committed to amending the Act to remove the requirements for approved authorities to have implementation plans. The existence of implementation plans was therefore not monitored by the department.

The amended Act came into effect in January 2018 and no longer requires approved authorities for more than one school to have implementation plans in place.

Needs-based funding arrangements

Under Section 78 of the Act, approved system authorities are able to distribute Commonwealth recurrent funding among their schools according to their own needs based funding arrangements.

In December 2013, the department approached existing systems to establish whether they wished to become approved system authorities. Those who sought to be approved system authorities were required to have a publicly available and transparent needs-based funding arrangement. This has been a requirement since the commencement of the Act and the Regulation in 2014.

As part of the approval process, each non-government approved system authority was required to provide a signed implementation plan. The implementation plans included a clause requiring them to implement or continue a needs-based funding arrangement providing a per-capita grant for each student, supplemented by additional funding targeted at individual student need. All non-government approved system authorities provided signed assurances to this effect.

Further assurance that these authorities were meeting this requirement is provided through the monitoring of the acquittal of systems' re-distribution arrangements in an annual 'Block Allocation Report', which requires each system to confirm its distribution of funding for base, loadings and administration on an annual basis. All of these authorities have been compliant with those requirements.

In response to the ANAO Report recommendations and as part of the implementation of the new funding arrangements, the department has been implementing new assurance activities.

In February 2018, the department wrote to all approved authorities for more than one school, to determine whether they distribute funding in accordance with the funding model contained within the Act or used their own needs based funding arrangement. If the latter, the department requested a copy of their needs-based funding arrangements. All of these approved authorities have responded to the department's request for information.

Eight states and territories and 19 approved authorities for more than one school confirmed that they distribute in line with their own needs based funding arrangement, and provided their needs-based funding arrangement along with advice on whether it has been made publicly available. While there is no legislative requirement that arrangements are available online, all except two authorities have their needs-based funding arrangement publicly available online.

The department has undertaken an initial assessment of the information provided. The quality and clarity of the information varied widely and the department has requested further information from all 27 approved authorities to enable an assessment of the needs-based funding arrangements in place.

Administrative costs and centralised expenditure

The Act and the Regulation allow approved system authorities to determine the funding arrangements that best meet the needs of their schools in the delivery of education to their students, as long as they meet the requirements for needs-based funding arrangements as set out in section 78(5) of the Act.

These arrangements are monitored through the Block Allocation Report that is submitted to the department by approved system authorities on behalf of their schools annually. The Block Allocation Report allows approved systems authorities to assign funding to both administrative and centralised costs.

Administrative costs are classified as expenditure that is used to administer the grant on behalf of the schools in the system that could, for example, relate to delivery of the national curriculum or professional development of teachers.

Centralised expenditure is any funding that is used for costs centrally handled by the system on behalf of its schools. For example, this may relate to superannuation, relief teachers, insurance, contracts for cleaning of schools or other services provided for the schools. Furthermore, centralised expenditure might also include the delivery of educational programs or services to schools.

During the Joint Committee hearing reference was made to an approved system authority that had combined administrative costs and centralised expenditure that accounted for 18.9 per cent of their use of funding. The system in question has historically allocated Commonwealth funding through this method with 1.9 per cent of its funding to administrative costs and 16.9 per cent to centralised expenditure.

Allocations for students with disability

During the Joint Committee hearing reference was made to the difference between the Commonwealth calculation of funding for students with disability and the redistribution of funding by approved system authorities to its member schools.

Approved system authorities are able to distribute Commonwealth funding between members schools based on the system's own needs based funding arrangements that meet the requirements of section 78(5) of the Act. This enables systems to target funding based on more detailed information available to the system about the needs of its students and the most appropriate way to deliver services for those students.

For example, a school might hire a support teacher who is responsible for assisting students with high needs, whether that be a disability or from a low socio-economic background. The staffing costs associated with that teacher might be attributed to the base school resourcing standard rather than expect a school to monitor the amount of time a teacher is assisting a student and then allocating costs as needed against that loading.

Approved authorities are required to submit an Acquittal Certificate and Block Allocation Report as part of their annual financial assurance requirements. The Acquittal Certificate is a statement signed by a qualified accountant that confirms that funding received by the Commonwealth has been used for the purposes of education. The Block Allocation Report specifies at a school level how an approved system authority has redistributed that funding across member schools by loadings, including for students with disability.

Student First Support Fund

The Students First Support Fund provided \$165 million over 2014–17 to 16 non-government representative bodies under the Act.

The department put in place a number of measures to ensure public funds were spent appropriately. These include requiring non-government representative bodies to:

- provide a work plan to outline the reforms that will take place
- provide annual reports outlining performance against the work plan, and
- provide an acquittal certificate certifying that all funds provided to each NGRB have been spent for the purpose of supporting school education.

The department engaged a consultant in December 2016 to review the fund. The review considered whether the Students First Support Fund achieved value for money and facilitated the implementation of Government priorities. The outcomes of this review were included in the ANAO Report.

The Students First Support Fund review findings informed the design of the new Non-Government Reform Support Fund to provide funding to non-government representative bodies from 2018-22 and to ensure greater accountability and alignment of activities with Australian Government education policy initiatives.

The guidelines for the Non-Government Reform Support Fund are available on the department's website, and include information on the objectives of the fund and reporting and accountability requirements.

I trust that this supplementary statement is of assistance to committee members and I welcome the opportunity to provide further clarification if required.

Yours sincerely

Ms Alex Gordon
3 September 2018

QUESTION ON NOTICE
Department of Education and Training

Joint Committee on Public Accounts and Audit

QUESTION ON NOTICE
Monitoring the Impact of Australian Government School Funding

Wednesday, 15 August 2018

Department of Education and Training

Question

Mr HART: And how long has the school funding and assurance group been in existence?

Mr Ford: We've had an assurance branch in the department for quite some time, I would have thought, just as we've had branches responsible for funding and other responsibilities. The groups have been subject to some sort of change over the years, of course, but that function has been established for some time.

Mr HART: Can you take that question on notice and provide me with an answer?

Mr Ford: Certainly.

Answer

The Schools Assurance Branch in the School Funding and Assurance Group has been in existence since January 2013.

QUESTION ON NOTICE
Department of Education and Training

Question

Mr HILL: Did the department provide advice to the government at any point about formally withdrawing from the National Education Reform Agreement?

Mr Ford: I'd have to take that on notice.

Answer

Yes.

QUESTION ON NOTICE
Department of Education and Training

Question

Mr HILL: So you're not concerned by 18.9 per cent of a block of funding being used for administration?

Mr Ford: If that were indeed the case, we would be concerned, depending how they defined their administration costs.

Mr HILL: You just said 'if that were indeed the case'. The Auditor-General said in his report that it is the case, so does that concern you?

Mr Ford: Presumably it was the case based on the data that the Auditor-General had available.

Mr HILL: So that is a concern?

Mr Ford: That would be a concern.

Mr HILL: So why did the department not show any awareness of it or do anything about it?

Mr Ford: I'm not sure what the department did about it, but I'm not accepting that we didn't do something about it in our interactions.

Mr HILL: You can take that on notice.

Answer

The approved authority in question allocated 1.9 percent of its funding to administrative costs. The remaining 16.9 percent identified was not used for administration but held centrally and used for the operation of its member schools. This was consistent with previous years and did not require any action by the department.

QUESTION ON NOTICE
Department of Education and Training

Question

Mr Ford: We have a process we work through where we think there is some risk of noncompliance. In a very small number of cases, we work with the approved authority and we work with state and territory governments on the issues that have been raised. We have powers to ask for the approved authority to show cause as to why they should retain their status as an approved authority—and that has been pursued in a small number of cases.

CHAIR: What is the random sample size?

Mr Ford: I would have to take that on notice.

CHAIR: Okay, thanks very much. And then, as a result of that, what is the rate of noncompliance that you have identified? Can you provide that as well?

Answer

The calculated sample size for the 2016 Compliance Certificate Verification Exercise was 68 with a zero non-compliance rate.

QUESTION ON NOTICE
Department of Education and Training

Question

Mr HILL: On page 51 it says you have provided \$165 million of taxpayer funding, over four years, to non-government representative bodies. The review into the fund found that no guidance on how it reports are to be structured was provided and that the commitment to agree appropriate performance measures that did not impose an unnecessary burden didn't appear to be met and that the Department was unable to provide the auditor general with evidence of any work undertaken to develop performance measures. What was actually done in that regard?

Mr Ford: I would have to take that on notice because it is dealing with a government program from some years ago.

Answer

The department relied on the reporting requirements in the 2014 Memorandum of Understanding.