

Chapter 3

Accountability and needs-based funding

3.1 The committee believes, in the light of evidence presented in the last chapter, that the existing SES funding model needs augmentation by a needs-based component. It accepts that, over time, problems arose with the previous ERI model, reducing confidence in its ability to measure the relative needs of private schools for government funding. This happened mainly because schools developed means to disguise or minimise their level of private income and thus to conceal their capacity to raise private resources.

3.2 This raises the important issue of how to implement a model that includes a needs-based component, while avoiding the problems that have caused concern in the past. The committee believes that in determining the level of need, the extent to which schools are able to raise their own income from private sources such as fees and endowments becomes a critical issue. The absence of published data on private schools' income from tuition fees and other sources presents a significant barrier to determining the true resource base of schools. This problem must be overcome: private schools should be required to report publicly on their fee levels and to make this information formally available to the Commonwealth.

3.3 The committee recognises the importance of ensuring accountability for all Commonwealth funds expended. The Parliament must ensure accountability for the proper expenditure of funds it appropriates and passes on to agencies outside the Commonwealth's administrative ambit. Any move to increase the formal accountability requirements placed on non-government schools with respect to Commonwealth funds also has implications for the broader accountability framework under which schools operate.

3.4 This chapter assesses the claims made by the government, independent and Catholic schools sectors about the adequacy of the accountability framework under which they operate for the expenditure of Commonwealth funds. It identifies areas where reform is needed if the Commonwealth is to remain faithful to the principle of needs-based funding.

Commonwealth accountability framework

3.5 The committee believes that the Commonwealth and the states should approach the issue of funding of non-government schools as a shared responsibility and in a spirit of cooperation. However, as a major provider of funding support to schools, the Commonwealth does have both financial and educational accountability arrangements that apply, as conditions of funding, to its funding contributions to states and territories, and to non-government schools.

3.6 The financial accountability requirements for government schools include provision by each school of a certificate to the effect that funds have been spent, or committed, for the purposes for which they were provided. Non-government schools are required to submit to DEST a financial questionnaire which specifies all gross income received in operating the school and for providing activities for the students enrolled at the school. The Association of Independent Schools of WA told the committee that data provided on the questionnaire is published through the Annual National Report on Schooling (ANR).¹ However, this data is aggregated and provides no detail about individual schools.

3.7 According to DEST: 'The accountability provisions applicable to Australian Government funding for schools and Indigenous education are built on the premise that all schools are equally accountable for the public funds they receive for the education of the children in their care'.²

3.8 In addition to the financial accountability arrangements, the Commonwealth has in place a range of educational accountability requirements which focus mainly on reporting designed to reinforce the link between the funding provided under Australian Government programs and improved outcomes for students.³ For example, the DEST submission states that the educational accountability for Australian Government funding is provided for in the following ways:

- Participation in the ANR;
- Commitment to the National Goals for Schooling in the 21st Century and to achieve any performance and performance targets, and to report against any performance measures, incorporated in legislation;
- Regular assessment of student outcomes through MCEETYA's framework for national key performance measures; and
- Measuring literacy and numeracy at years 3, 5 and 7 through annual, full-cohort skills testing undertaken by each state and territory.⁴

Views of the independent and Catholic school sectors

3.9 The independent schools sector in its evidence to the committee expressed satisfaction with the accountability arrangements in place for both government and non-government schools. The Independent Schools Council of Australia argued in its submission that:

1 Mrs Audrey Jackson, The Association of Independent Schools of WA, *Hansard*, Perth, 12 July 2004, p.19

2 Submission No.48, DEST, p.9

3 *ibid.*, pp.9-10

4 *ibid.*

Independent schools are highly accountable to stakeholders, governments and regulatory bodies. While the accountability environment of independent schools differs from that of schools in other sectors, it is no less stringent and in significant ways is far more extensive.⁵

3.10 With regard to financial accountability of Commonwealth funding, the Council stressed that the accountability and reporting requirements in legislation for the 2005-08 quadrennium are expected to be similar, and possibly more extensive, than for previous legislation.

3.11 It is claimed by the independent schools sector that private schools receiving Commonwealth funds are both financially and educationally accountable and must:

- Provide extensive financial data to the Australian Government each year;
- Demonstrate that the funds received under each funding program have been expended appropriately;
- Participate in the Annual National Report on Schooling in Australia by providing extensive data;
- Participate in evaluations of the outcomes of programs of financial assistance;
- Commit to the National Goals for Schooling for the Twenty-first Century; and
- Commit to the achievement of performance measures, including testing for and reporting against literacy and numeracy benchmarks.⁶

3.12 The Independent Schools Council of Australia cautioned against any proposals to introduce further accountability requirements for Commonwealth funding that would:

- Increase the administrative burden and costs related to such requirements;
- Compromise the ability of schools to respond to the communities they serve;
- Discourage innovation and excellence in educational programs and their delivery; and
- Inhibit the ability of schools to be competitive both between and within sectors.⁷

5 Submission No.43, Independent Schools Council of Australia, p.18

6 *ibid.*, p.19

7 *ibid.*, pp.19-20

3.13 Three themes emerge from evidence provided by the independent schools. First, the current financial and educational accountability arrangements are adequate, therefore any further changes are not necessary. Second, in some respects, non-government schools are more accountable than their counterparts in the public system. It was pointed out to the committee that non-government schools are required to undergo a rigorous registration procedure every five years, a requirement which does not apply to government schools.⁸ Third, there is a view that any new measures for achieving greater accountability for the funding that the Commonwealth provides should take into consideration whether they will result in improved educational outcomes. Each of these themes is captured in evidence by the Association of Independent Schools of New South Wales:

Accountability that simply adds to the administrative workload and does not lead to an improvement in educational outcomes seems to us to be a waste of good, useful time....Independent schools have been providing...information for many years through financial questionnaires and so on. There is no objection to increased accountability, but we will run every proposal for extra accountability past the test of its validity for helping us to improve the quality of education.⁹

3.14 The committee raised the issue of accountability with the independent schools sector at public hearings. It believes the evidence highlights serious deficiencies with the current accountability and reporting arrangements which apply to the non-government sector. Mr David Robertson, Assistant Director, Association of Independent Schools of Queensland, told the Committee that specific information on how Commonwealth funds are spent is not collected by his association. Although information on Commonwealth grants to non-government schools is tabled in Parliament every year, the committee notes that this information, as with virtually all comprehensive data about private schools' finances, is only an aggregate figure which does not reveal how individual schools spend public money.¹⁰

3.15 Similarly, Mr Daniels, Executive Director, Independent Schools Council of Australia, told the committee that the only data collected by his organisation relating to how schools spend Commonwealth money is that which is publicly available and collected either by the Australian Bureau of Statistics or other Commonwealth agencies.

3.16 The various state Catholic education commissions are of the view that Catholic schools already adhere to strict accountability and reporting processes. The Catholic Education Office of WA, for example, told the committee that it adheres to

8 Submission No.26, Australian Parents Council Inc, p.4

9 Mr Terrence Chapman, Executive Director, Association of Independent Schools of New South Wales, *Hansard*, 27 July 2004, p.52

10 Mr David Robertson, Association of Independent Schools of Queensland, *Hansard*, Brisbane, 21 July 2004, pp.49-50

'very strict accountability requirements' and that there is 'very strong financial accountability back to the community and back to government'.¹¹

Criticisms of the accountability and reporting framework

3.17 The issue of accountability has been a constant topic of debate among the different school sectors. The committee accepts that non-government schools adhere to various accountability requirements that relate to implementation curriculum frameworks, teaching and learning programs, reading and reporting of student achievement and other educational outcomes. It also notes the concern of the Australian Council of State School Organisations that the imposition of intrusive and uniform accountability regimes might stifle creativity and innovation in education, and become bureaucratic ends in themselves.¹²

3.18 However, the main issue before the committee is that of the level of accountability for the finances that private schools receive from the Commonwealth. In this regard, the Committee notes that the issue of accountability of Government funding to private schools has recently been the subject of close scrutiny. Independent research has called into question many of the assertions made by those representing the independent school sector.

3.19 The committee takes particular note of a major study by Dr Chris Aulich and the Mr Terry Aulich which concludes that while Australian Government per capita funding of private education is high in comparison with other countries' funding, Australia has one of the lowest levels of accountability and regulatory control: '...the way in which government funding is spent by private schools is not subject to the same rigorous analysis and reporting common not only to most other OECD countries but to comparable areas of public expenditure in this country'.¹³

3.20 A number of submissions to this inquiry expressed major concerns with the current accountability arrangements surrounding the public subsidy of private schools, and highlighted a number of areas in which accountability needs to be improved. The AEU identified at least eight areas which require significant improvements. These include: public transparency and parliamentary reporting of accounts; admission and exclusion criteria; salaries; curriculum and professional accountability; expenditure on promotion, marketing and advertising; fee regulation; auditing of rolls; and capital funding.¹⁴

11 Mr Ronald Dullard, Catholic Education Office of WA, *Hansard*, Perth, 12 July, p.7

12 Submission No.62, Australian Council of State School Organisations, p.5

13 Dr Chris Aulich and the Hon. Terry Aulich, *Proposals for Improved Accountability for Government Funding to Private Schools*, Australian School of Government Studies, November 2003, p.4

14 Submission No.33, AEU, pp.46-53

3.21 For the purpose of this inquiry, the committee is mainly concerned about issues relating to the transparency and reporting of Commonwealth expenditure on non-government schools. According to the AEU submission, the current reporting requirements are inadequate for two reasons. First, DEST's financial questionnaire is applied and treated on a commercial-in-confidence basis. Second, the auditing procedures do not account for schools which have a capacity to 'two pocket account', which means substituting government money for private expenditure and spending private money in areas not allowed within the Commonwealth funding arrangements.¹⁵

3.22 The committee notes the view of the Queensland Teachers Union that an important obstacle to achieving adequate levels of accountability is the absence of an independent mechanism to establish a consistent and comparable base for analysing and comparing the income and expenditure of government and non-government schools. The implication is that much of the current debate over the accountability of Commonwealth schools funding is unproductive because there are no agreed data in relation to school income and expenditure.¹⁶

3.23 Union concerns are summarised by the AEU (WA Branch) submission: 'Funds provided by the Federal Government are given to no-government schools and they are allowed to spend that money as they see fit, but they do not tell the public how their taxpayer dollars are being spent'.¹⁷

3.24 The Independent Education Union of Australian (IEUA) expressed similar concerns to the AEU. It argued that any funding model needs to measure the actual resources of a school, including fees and other sources of income. It argued further that government schools should also be required to provide information about the level of resources available from sources such as fees and fund raising.¹⁸

3.25 The committee finds it unsatisfactory that there is no complete and comparable data set relating to the income and expenditure of government and non-government schools. Research published by the Institute for Social Research, Swinburne University of Technology, shows how difficult it is to make sense of recent developments in Commonwealth funding of schools. To begin with, states and territories do not report their data in the same format as the Commonwealth Government does. There are differences in the terminology and accounting concepts which underpin states' published financial data. There is the additional problem of non-government schools using accounting concepts which are not used in the public sector.

15 *ibid.*, p.46

16 Dr John McCollow, Assistant Secretary, Queensland Teachers Union, *Hansard*, Brisbane, 21 July 2004, p.4

17 Submission No.54, Australian Education Union (WA Branch), p.2

18 Submission No.49, Independent Education Union of Australia, p.3

3.26 The cash-based system of reporting used by the state, territories and the Commonwealth Government was replaced in 2001 with a system of accrual accounting. The move was premised on the claim that accrual accounting would make public finances more transparent, drawing on accounting systems used widely in the private sector. However, the move to accrual accounting has actually produced the opposite result. Not only is it impossible to reconcile the new data with the old, thereby abruptly ending the very useful cash-based time series, each of the jurisdictions employs slightly different methods of reporting. The committee finds that there is less transparency in the financing of Australia's education system than there was five years ago. According to Hayward and Esposito, this is '...a remarkable development given that several hundred millions of dollars were spent on consultants to help move to this new system'.¹⁹

3.27 The committee believes that in the light of these deficiencies, more needs to be done to strengthen the processes of data collection and dissemination of information about the public funding of schools. In particular, it agrees with the view of David Hayward and Alexis Esposito that there is an urgent need for additional resources to be allocated to rectify this situation, preferably through MCEETYA. The committee believes that a dedicated secretariat with expertise in financial reporting should be established within MCEETYA to collect timely and accurate data on education funding for government and non-government schools. The data should include:

- Operating expenses, including superannuation and interest;
- Operating income, including income from private sources such as fees, donations and bequests, and money raised from fund-raising, sponsorships and the like;
- Capital expenditures; and
- Borrowings.²⁰

3.28 The committee considers the different accountability and reporting standards which apply to the government, non-government and Catholic school sectors to be a major stumbling block to achieving adequate accountability. The committee suspects that these different arrangements may be the result of the political negotiations between the Australian Government and each of the school sectors on their level of Commonwealth funding. The NSW Teachers Federation highlighted in its submission that public schools in NSW are subject to minute scrutiny with respect to their financial arrangements, including all forms of income (government grants, fund raising, donations and fees). With respect to private schools in NSW:

There is no such requirement...They are not required to account publicly for monies received from government...Private schools hide behind 'commercial-in-confidence' excuses at the same time as they are treated as

19 Submission No.71, Mr David Hayward, pp.4-6

20 *ibid.*, p.31

not-for-profit charities under the Taxation Act. No scrutiny is applied to the accumulation of assets, much of which is subsidised by the public.²¹

3.29 The committee notes that the Government's new legislation for implementing its funding policy does not appear to incorporate broader accountability principles across all school sectors. According to Mr Terry Aulich:

In regard to any systemic funding from the Commonwealth, why is there no formula which is transparent to everyone as to how, for example, the bishops or the systems distribute Commonwealth funding within their systems? What is the basis on which that money is delivered to the schools? Where does it go? Does it go to their secondary schools and not to primary schools?²²

3.30 The committee is particularly concerned, in the context of calls for accountability, about claims repeated by different independent school associations of the adequacy in this regard of the DEST financial questionnaire which non-government schools are required to complete each year. To begin with, because the questionnaire instrument itself is treated by DEST as a confidential document, the committee is unable to form an assessment of its effectiveness as an accountability tool.

3.31 Following from this, it appears that the questionnaire does not include information that relates to the amount of money independent schools spend on teachers' and principals' salaries, on remuneration packages, capital works or money spent on reducing debt. It does not gather information about movement in fee levels. None of this financial data can be found on the public record. The committee also questions whether the annual National Report on Schooling, referred to earlier, is an adequate form of accountability when these reports contain aggregated information only and are usually, at best, three years out of date. It is noted, however, that the Government has sought to expedite the publication of the National Report on Schooling in a provision contained in the Schools Assistance Bill 2004.

3.32 The AEU strongly recommends that accountability requirements applying to private schools be considerably strengthened. Funding, it says, should be made conditional on financial reporting to Parliament of all aspects of the operations of private schools, conducted on the same basis as those in public schools. The AEU submission states:

Given the levels of funding that private schools receive and the relevance of knowing and being able to compare the overall levels of resources of both public and private schools, there seems to be no good reason why these reports should not be tabled in Parliament.²³

21 Submission No.4, NSW Teachers Federation, p.14

22 Mr Terry Aulich, Australian Council of State School Organisations, *Hansard*, Canberra, 27 July 2004, p.39

23 Submission No.4, NSW Teachers Federation, p.14

3.33 The committee agrees with this assessment, and adds that parliamentary scrutiny of all financial matters related to non-government schools is not an unreasonable condition to be placed on their Commonwealth funding.

3.34 Fairness and equity in the allocation of scarce public resources can only be achieved with the full disclosure of schools' financial capacity. Such disclosure would both facilitate a transparent process for determining equitable funding for schools, and would ensure that money provided by the Australian Government is properly accounted for. This is a view endorsed by the NSW Secondary Principals Council:

If an institution receives public money, we should look at ensuring that it is publicly accountable. At the moment we do not know what fees [these institutions] receive, how many properties they own, what sort of money is left to them in bequests or what sort of investments they have in the offshore money market. If we are talking about the elite, very wealthy schools, none of that is on the public record... Surely, if you are entitled to vast amounts of public money then the income that you already hold, which would somehow relate to the income that you get, should at least be publicly on the table.²⁴

New schools

3.35 An issue raised on several occasions in evidence to the committee relates to the funding of new schools. The WA Branch of the AEU expressed its concern at the provision of resources for new schools and whether any new inquiry into Commonwealth funding of schools should include a reassessment of the levels of funding that are currently provided to new schools. Ms Anne Gisborne, Deputy President, told the committee that during the last decade there has been an increase in the number of new independent schools that have not been able to support themselves financially '...because they are not linked into a system and they therefore require further resourcing to support them'.²⁵ Concern over resourcing of new schools was also expressed by the Queensland Teachers Union, especially ensuring that new schools are economically viable and that their impact on existing government and non-government schools is assessed.²⁶ The committee notes that this problem is exacerbated in jurisdictions where there is no minimum enrolment requirement on non-government schools, leading to problems with viability for some newly-registered, extremely small schools. The committee would welcome moves by states and territories to establish, where they do not already exist, minimum enrolment requirements for the registration of new non-government schools.

24 Ms Judy King, Deputy president, NSW Secondary Principals Council, *Hansard*, Sydney, 26 July 2004, p.56

25 Ms Anne Gisborne, Australian Education Union (WA Branch), *Hansard*, Perth, 12 July 2004, p.36

26 Dr John McCollow, Assistant Secretary, Queensland Teachers Union, *Hansard*, Brisbane, 21 July 2004, p.4

Conclusion

3.36 As the evidence before the committee clearly demonstrates, a major obstacle to any modification to the allocative mechanism for Commonwealth subsidies to private schools is the absence of published data on private schools' income, especially from tuition fees. According to Dr Louise Watson, while a limited amount of information on the fees charged by some independent schools in some states is published in the *Good Schools Guide*, there is no complete national data set on the fees charged by independent schools. In addition, while the Commonwealth Government collects data annually on all private schools' income from tuition fees, this information is not made publicly available.

3.37 The Parliament has before it legislation that would see the reach of the Commonwealth, in terms of explicit conditions to be placed on funding, extend further into the non-government schools sector than previously. However, the committee does not believe this increasing level of Commonwealth intervention to be accompanied by adequate reporting and accountability measures. While the Government and the independent schools sector remind the community of the stringent educational accountability regime which has been put into place by the Government, the committee takes the view that the accountability of the expenditure of Commonwealth funds is an area that has not been adequately addressed.

3.38 The committee calls for a revised and strengthened accountability framework which would require non-government schools to fully disclose their financial position to the Parliament at least once each year. Any new accountability framework should make full disclosure a condition of Commonwealth funding.

Recommendation 5

The committee recommends that the Commonwealth, through MCEETYA, should exercise its responsibility to ensure that financial data regarding school income and expenditure, whether on an aggregated or disaggregated basis, is provided and publicly presented and reported in a standard format, using a single accounting basis and reporting period. In the case of non-government schools, this data, both aggregated and disaggregated to the school level, should be provided to the Commonwealth in a standard format on an annual basis, and tabled in the Parliament. Provision of full financial information in this manner should be a condition for receipt of recurrent funding.

Recommendation 6

The committee recommends that accountability provisions regarding non-government schools should be strengthened to require reporting by schools on a range of matters including:

- enrolment of students with disabilities;
- enrolment of Indigenous students;

- admission and exclusion policies;
- teaching staff;
- curriculum; and
- discipline policies.

