REVIEW OF THE FUNDING MODEL FOR ALLOCATING STATE GOVERNMENT FINANCIAL ASSISTANCE TO WESTERN AUSTRALIAN NON-GOVERNMENT SCHOOLS

PART 1: **COMPOSITION AND CALCULATION OF THE WESTERN AUSTRALIAN AVERAGE GOVERNMENT SCHOOL RECURRENT COST (AGSRC)**

PART 2: **STATE PER CAPITA GRANTS DISTRIBUTION MECHANISM**

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PREFACE

The Review of the Funding Model for Allocating State Government Financial Assistance to Western Australian Non-Government Schools was a cooperative exercise involving the Department of Education Services, the Catholic Education Office of Western Australia, the Association of Independent Schools of WA (Inc) and the Centre for Labour Market Research at The University of Western Australia. It was conducted under the guidance of a Working Party comprising representatives of the above agencies and organisations.

The members of the Working Party were as follows:

Mrs Norma Jeffery	A/Chief Executive Officer, Department of Education Services (Chairperson)
Mr Bronte Parkin	Director, Non-Government and International Education, Department of Education Services
Mr Ron Dullard	Director, Catholic Education Office of Western Australia
Mr Tony Giglia	Assistant Director, Planning and Resources, Catholic Education Office of Western Australia
Mrs Audrey Jackson	Executive Director, Association of Independent Schools of WA (Inc)
Mr Ross Kelly	Research Officer, Centre for Labour Market Research, The University of Western Australia (Consultant to the Working Party)

Assistance was also provided by Mrs Elda Iaschi, Manager of Financial Services, Department of Education Services; Mr Roger Walsh Coordinator, and Mr Jeff Thorne Consultant, at the Catholic Education Office of Western Australia; and Ms Keva Couch of the Association of Independent Schools of WA (Inc). Their contributions are appreciated.

Mr Kelly undertook the detailed and painstaking investigation of expenditures in government schools for interpretation and analysis by the Working Party of the Average Government School Recurrent Cost (AGSRC). This was done with the approval of Mr Paul Albert, Director General of the Department of Education and Training who provided access to the Department's financial records. The cooperation of the staff of the Finance and other sections of the Department of Education and Training is appreciated.

Mr Kelly was responsible for conceptualising many of the aspects raised in Part 1 of the Review and undertook the writing of that section of the report. The Working Party is grateful for the succinct manner in which Mr Kelly was able to describe a somewhat obscure and difficult construct as the AGSRC.

Mr Parkin undertook the analysis and writing of Part 2 of the report following consultation chiefly with Mrs Jackson on matters affecting mainly independent non-government schools. Mr Parkin's contribution is also appreciated.

On behalf of the Working Party I express many thanks to all those who contributed to this Review.

NORMA JEFFERY
CHAIR

INTRODUCTION

1. The State Government funding model for non-government schools has been under formal review since 2001. Indications of the need for a review were recognised by the previous State Government, the Catholic Education Office (CEO) and the Association of Independent Schools of WA Inc (AISWA) soon after the Education Resources Index (ERI) funding model was abolished by the Commonwealth Government at the end of 2000.

2. Abolition of the ERI meant the Commonwealth's assessment of schools into funding categories, on which the State relied for its own ERI based funding categories, would be lost. Whether the State Government would adopt, as the Commonwealth had done, a Socio-Economic Status (SES) funding model for the distribution of grants across schools, was an important consideration for review. Most other State and Territory Governments were placed in the same position and have reviewed or at least re-considered their respective funding models in response to the Commonwealth initiative.

3. In February 2001 the need for review was strengthened due to the new incoming State Government's policy objective to continue to provide average levels of recurrent funding to non-government schools to at least 25 per cent of the State Average Government School Recurrent Cost (AGSRC). At that time, the percentage linkage (or nexus) reported by the Department of Education Services (DES) was 27.4 per cent. As the AGSRC is central to the funding model and to decisions made about per capita funding to non-government schools, the Department was requested to provide expert technical advice on the method of calculating the AGSRC.

4. While it was decided to defer commencement of a major review until after the outcome of the Federal Election scheduled for late in 2001 (in the event there was a change of Federal Government and the possibility of change to the SES funding model), a contract was entered into with the Centre for Labour Market Research (CLMR) in September 2001 to provide technical advice on the State AGSRC and the funding distribution model. The CLMR's technical report[1] was completed in February 2002 and briefings were provided to the Minister for Education and Training, and to the CEO, AISWA and other representatives of non-government schools.

5. The technical report identified problems with the use of the AGSRC and proposed some possible solutions for creating a fair and equitable means of allocating funding to the non-government sector. It also served to highlight the need for a far more intensive investigation of the way in which expenditure data on government schooling is identified and reported for calculating the State AGSRC. The technical report also recommended adoption of the SES model as it was clearly less open to manipulation than the ERI, was to be continually updated (unlike the ERI) and provided a convenient means of distributing funds across schools. It also held the prospect of further refinement to accommodate the concerns of the non-government sector.

[1] Kelly R, Mulvey C, and Smart D, *Western Australian State Government Funding of Non-Government Schools*, The Centre for Labour Market Research, The University of Western Australia, Perth, 2002.

6. At that stage the non-government sector representatives expressed serious reservations about the report's recommendations, opting instead for a cross-sectoral Working Party to undertake a more detailed analysis of the AGSRC issues. It was not possible to commence a detailed examination of the financial data at the Department of Education and Training (DET) until February 2003 after the most recent relevant financial year data (for 2000/01) had been reported to the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA) for the purpose of determining the national AGSRC.

7. Subsequently, the Working Party of CEO and AISWA representatives and the DES was established and met throughout 2003 to progressively examine DET data revealed through the investigation by the re-engaged CLMR consultant (Ross Kelly). The extent and thoroughness of this investigation was unprecedented and consequently has been able to verify to the satisfaction of everyone involved that all appropriate government school expenditures have been properly recorded and accounted for. The ensuing analysis and interpretation on how a State AGSRC is utilised as the basis for funding to the non-government sector is the substance of Part 1 of this final report.

8. Part 2 of the report addresses the elements of the State funding model that are concerned with the distribution of per capita grants across schools.

9. Early on in the deliberations of the Working Party, the sector representatives indicated their broad satisfaction with preserving the State's ERI category based funding model, subject to AISWA's suggestion that the categorisation of a handful of independent schools be reviewed.

10. At no point in the deliberations was the SES funding model embraced for State funding purposes, except that AISWA suggested it be one of several factors taken into account when deciding on the possible re-categorisation of a small number of schools. This position is consistent with that taken by the Minister for Education and Training who, together with other State and Territory Ministers continues to argue that the SES funding model is fundamentally flawed when it can deliver big increases in public funding to schools with historically high levels of resources and who continue to charge high fees.

11. A further aspect considered in Part 2 was the differential in the value of per capita grants allocated to schools across the funding categories. Concern had been expressed in government circles for some time that, compared with other States and Territories, Western Australia had too narrow a differential between the well resourced (high fee) and the less well resourced (low fee) schools.

12. The concepts and principles outlined in Part 1 of the review were finalised late in 2003. It was agreed that their adoption would provide a sound basis for annually recalculating the refined AGSRC and allow per capita grants to be set each year such that the Government's nexus commitment is achieved. The Minister for Education and Training was advised that the review had determined the 2004 nexus to be 26 per cent.

SUMMARY AND MAJOR AGREEMENTS

The Working Party has reached agreement on the basis for financial assistance to the non-government sector. The two parts to the review were, firstly, the AGSRC as central to the funding model and secondly, the needs based funding categories for distribution of recurrent per capita grants to schools and systems within the sector.

COMPOSITION AND CALCULATION OF THE AGSRC

1. The AGSRC is to provide the basis for financial assistance to the sector. Calculation of the AGSRC will exclude specific items of expenditure that relate to non-mainstream activity and students in the government sector.

2. Total assistance to the sector will be acknowledged as the basis for calculating performance against the government's pledge to provide at least 25 per cent of the AGSRC.

3. Total assistance will be comprised of:

   – *Direct Assistance*

   – *recurrent per capita grants to mainstream and non-mainstream or specific purpose schools.*

   – *Indirect Assistance*

   – *general assistance*
   – *targeted assistance*

4. Direct assistance (recurrent per capita grants) will continue to be the mainstay of financial assistance to the non-government sector.

5. Direct assistance for non-mainstream schools will be targeted towards specific issues, students and areas of activity on a '*designated basis'*. The pool of available funds for this results from savings flowing from a reduction in the AGSRC achieved through omitting items relating to non-mainstream schools, high need students and associated areas of activity. Thus, non-mainstream and targeted assistance allocations are a 're-prioritisation' of funds from within direct assistance.

6. Indirect assistance is the combined *general* and *targeted assistance. General assistance* is the systemic and other assistance provided to the non-government sector, such as transport concessions, Curriculum Council costs, imputed benefits from the Low Interest Loan Scheme (LILS) subsidy and Office of Non-Government Education costs. *Targeted assistance* relates to those expenditures that are specifically for schooling initiatives aimed at *high need students* with identifiable educational, social, intellectual and physical disadvantage.

7. A mechanism for identifying and negotiating non-mainstream and targeted assistance should be established as part of the annual process of setting per capita grants for each following school year.

8. Indexation of recurrent per capita grants will occur under the new funding model with the balance between indirect and direct assistance influenced by government priorities. Whatever the balance between the two funding streams, the total assistance provided will still be maintained to at least 25 per cent of the AGSRC on a per capita basis.

9. The AGSRC for the 2001/02 financial year was $7,407. This provides the basis for total assistance to the non-government sector.

10. The amount of indirect assistance provided to the non-government sector for 2001/02 was $35.58m, or $334 per student in the non-government sector. This amount is taken into account when calculating total assistance for the 2004 calendar year. The indirect assistance was comprised of $273 per student of *general assistance* and $61 per student in *targeted assistance*. The latter assistance is the average across total non-government sector enrolments; however, the expenditure is actually concentrated on a relatively small number of high need students in the non-government sector.

11. Given projected enrolments for 2004 in the non-government sector and the 2004 schedule of per capita payments announced by the Minister in October 2003, the estimated average per capita grant to the non-government sector for 2004 is $1,592. This will result in total assistance of $1,926 per student, or 26 per cent of the AGSRC.

12. The main benefits of the refined AGSRC funding model are:

   - The approach outlined above provides an AGSRC that better reflects the ‘typical school’ and the ‘typical student’;
   - Targeted funding for special initiatives in the government sector will only pass through to the non-government sector where there is a designated and identified need;
   - Allocation of resources to non-mainstream schools and high need students in the non-government sector can now be better targeted. This makes the funding more accountable, fairer and consistent in its treatment between the government and non-government sectors;
   - Greater transparency on how funds are dispersed to the sector;
   - There is now a clear understanding by the non-government sector as to what constitutes the expenditure basket in the government sector and the basis for inclusion of new expenditure items into the basket; and
   - The approach also allows for improved timeliness in the calculation of the AGSRC. This means that the expenditure in the government sector is transmitted to the non-government sector sooner than has been the case in the past.

13. The following table presents the key information with respect to the AGSRC and the nexus.

Table 1: Funding under the *Refined* AGSRC

	2000/01	2001/02
	(for 2003 funding)	*(for 2004 funding)*
Net students in scope	219,539	223,038
Net expenditure in scope	$1,523,974,000	$1,652,080,000
AGSRC	6,942	7,407
Direct assistance - average per capita grants	*$1,549*	*$1,592*
Indirect assistance – average per capita	*$333*	*$334*
general	$278	$273
targeted	$55	$61
Total assistance - average per capita	*$1,882*	*$1,926*
Nexus	**27.11%**	**26.00%**

PER CAPITA GRANTS DISTRIBUTION MODEL

14. The State funding categories based on the ERI are to be continued. The original Commonwealth ERI categories, combined historically into six State categories and supplemented by a further two special needs categories unique to this State, create the basic eight category structure. This means of distributing per capita grants is regarded as an acceptable needs-based funding mechanism across Western Australian non-government schools.

15. A school's level of private resources is to be maintained as the most significant factor in determining its level of State funding. Fees and other compulsory charges are regarded as reasonably reliable indicators of the resources available to a non-government school. Analysis of fees and charges of schools shows there are discrete differences in the average fee between State funding categories.

16. Examination and review of fees and charges will be used to confirm and, if need be, to review a school's funding category and to determine placement of a new school into one of the eight funding categories. A school's SES might also be taken into account as a "moderating" variable, if necessary. New schools opened as members of recognised funding systems, as in the past, will continue to take the funding category for the relevant school system.

17. In response to criticism that the differential in per capita grants paid to Western Australian non-government schools is too narrow and favours high fee schools over low fee schools, the review acknowledged the most realistic way of achieving a wider differential is to continue a policy of capping grants to high fee category 1,2,3 schools until a desired funding level is reached. One possible target would be the current Commonwealth minimum of 13.7 per cent of the relevant AGSRC – a figure that the Minister has stated the Commonwealth should provide as minimum funding to government schools.

18. Given anticipated growth in the AGSRC in future years, it would take further capping until 2006 (for Primary) and 2008 (for Secondary) for category 1,2,3 grants to reach the possible target for the respective Primary and Secondary AGSRCs (grants are currently 14.92 per cent and 16.35 per cent respectively).

19. A number of independent schools are recommended for State funding re-categorisation due to their anomalous inclusion in Commonwealth ERI categories containing schools with dissimilar fee structures. Examination of fees at independent schools against the current category averages revealed several schools for possible placement in lower funded categories (but which would remain "funding maintained") and several for possible re-categorisation to higher funded categories. All other non-government schools, independent and Catholic, should remain in their present State funding categories.

PART 1: COMPOSITION AND CALCULATION OF THE WESTERN AUSTRALIAN AVERAGE GOVERNMENT SCHOOL RECURRENT COST (AGSRC)

CONCEPTS AND PRINCIPLES

1. The following provides an overview of the principles agreed to for the calculation of the AGSRC and the implications for the recurrent per capita grants and other funding to the non-government sector.

2. The purpose of the review has been to examine the items that, in principle, should be included in the AGSRC in order to provide a reasonable indicator of the full cost of service delivery for pre-primary, primary and secondary education in the government sector and in turn determine grants to the non-government sector.

3. The non-government sector has issues, either peculiar to it or in common with the government sector, that give rise to costs that exceed those arising from mainstream schooling. There are also some areas of activity and related expenditures where the non-government sector does not have the same level of responsibility or equivalent need as the government sector.

4. To the extent that the non-government sector does have to address similar issues to the government sector, there is significant variation between schools, systems and within systems in terms of the degree of special needs that they face. This is essentially the case in government schools and influences the approach to funding in that sector. In the government sector some of the funding to schools is on a *needs identified* basis, and some is appropriated to schools through standard per capita funding models.

5. The incorporation of expenditure on non-mainstream schools, centres and high need students in the AGSRC, as is currently the case, inflates the true value of the AGSRC. The effect of this is to transmit these types of expenditure through all schools in the non-government sector, irrespective of the prevalence or degree of special need that individuals, schools or systems face. This was considered to be inequitable.

6. A split funding approach would involve a per capita funding model that differentiates between mainstream and non-mainstream schools. This approach would circumvent the automatic flow-ons that are an unintended and undesirable feature of the existing funding model and yet still have the continuity of funding across the entire sector that is a feature of the recurrent per capita grants model. Outside of this model the non-government sector would be able to negotiate separately for those issues and needs that are more idiosyncratic in nature and pertinent to their circumstances. A mechanism for identifying and negotiating non-mainstream and targeted assistance should be established as part of the annual process of setting per capita grants for each following school year.

7. The mainstream per capita funding model will still continue to be differentiated according to an agreed needs based funding model (see Part 2 of this report).

8. The approach outlined above provides an AGSRC that better reflects the 'typical school' and the 'typical student'. Expenditures that relate to non-mainstream schools, high need students and related activity can readily be itemised and excluded from the

calculation. The students that correspond with these expenditures can also be identified with some accuracy (in terms of their numbers) and likewise excluded.[2] This provides a more refined measure of the AGSRC for use in a mainstream recurrent per capita funding model.

9. Total assistance provided to the non-government sector is comprised of *direct* and *indirect assistance*. Direct financial assistance is provided through the recurrent per capita grants. Indirect assistance is provided by way of systemic support through the Curriculum Council, transport concessions, the economic value of low interest loan subsidies and other items. Some of the items that are included in the 'indirect' category are, in fact, direct assistance. For example, the assistance provided for special education is in the form of direct financial assistance. The nomenclature of 'indirect' is used more broadly in this report to define that assistance provided to the non-government sector which is *not* determined through the recurrent per capita grants.

10. One of the objectives of the review has been to determine whether the assistance provided to the sector has been at a level that meets the commitment by the current government and previous governments to maintain financial support of at least 25 per cent of the AGSRC on a per capita basis. Since 1994 this has been interpreted and reported variously in the Parliament and elsewhere as meaning the *total assistance* provided on a per capita basis expressed as a proportion of the AGSRC (the nexus). The nexus, based on calculations agreed to prior to this review, increased from below 25 per cent in 1994 to over 27.6 per cent in 2003.

11. The concepts and principles outlined above underpin the calculation of the AGSRC to be provided in the next section. Funding to the sector through the recurrent per capita grants is not the only funding provided to the sector, nor should it be. It has been agreed in principle by the Working Party that greater emphasis on targeted funding will provide the following benefits:

    - It will enable the refinement of the AGSRC to better reflect the 'typical school' and the 'typical student'.

    - A greater share of the resources provided to the non-government sector can be targeted at areas of need. This would facilitate closer alignment between policy objectives and resourcing outcomes for both the non-government sector and government sector. Thus, it would maintain a degree of consistency in the approach to government funding of both sectors.

    - Flow-ons from funding initiatives targeting specific issues in the government sector need no longer be automatically disseminated to all schools in the non-government sector. Resources would be concentrated on those in greatest need of targeted assistance, rather than diluting these resources among all students in the non-government sector.

    - Demonstrated need will become the guiding principle of non-mainstream allocations, just as it is in the government sector.

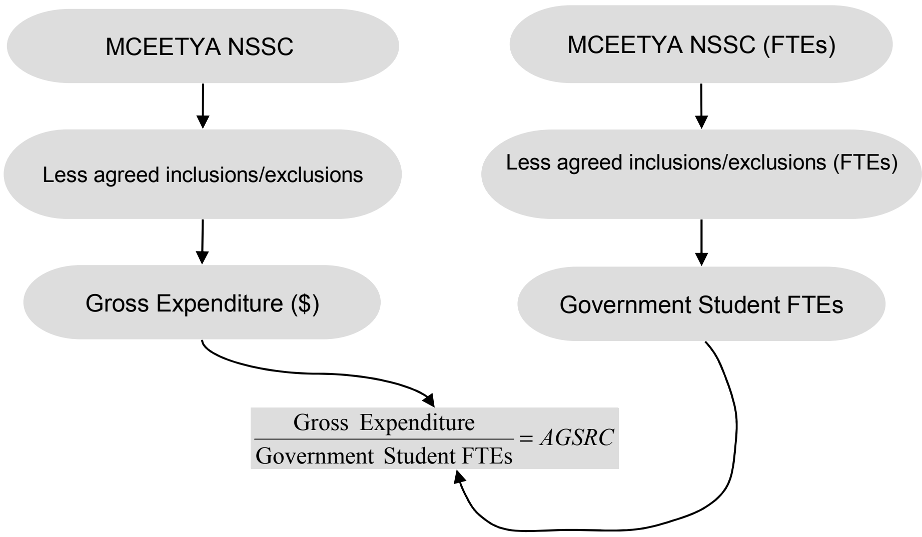
    - Finally, it can be achieved while still maintaining the average level of recurrent funding to the non-government sector to at least 25 per cent of the AGSRC.

[2] To leave these students in the calculations, but remove the expenditure relating to them, would bias the AGSRC downwards.

12. In recognition of the use of a streamlined AGSRC as described above, the Working Party agreed that a non-mainstream funding channel must supplement the mainstream recurrent per capita grant funding mechanism[3].

13. The calculation of the AGSRC can be represented as follows:

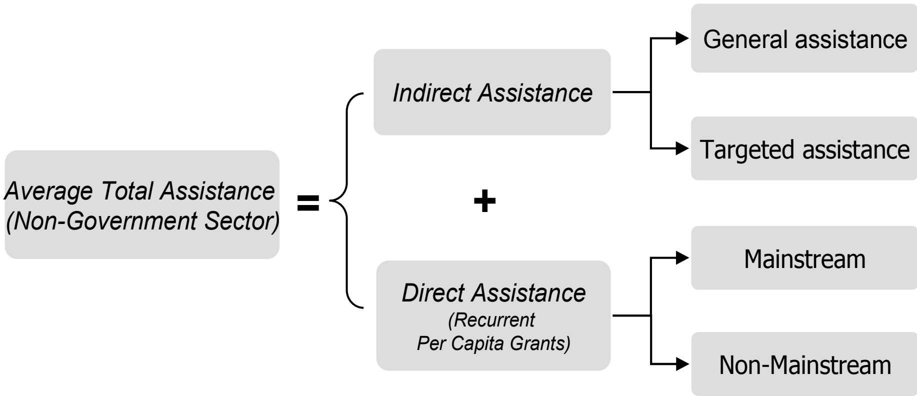
Figure 1: Calculation of the AGRSC



14. The total assistance to the non-government sector and the calculation of the nexus is shown in Figure 2. The precise meaning and the derivation of the figures for each of the items shown in Figures 1 & 2 are provided in subsequent sections.

[3] This is because the AGSRC is lower as a result of the removal of some non-mainstream related expenditure. Naturally, the per capita recurrent grants (ie direct assistance) would be lower under this regime. While it is acknowledged that in general the non-government sector does not have quite the same level of the various non-mainstream students and obligations, it still has some exposure. This is particularly true of the larger systems and specific schools. It is appropriate, then, that this be recognised and the savings in recurrent grants resulting from the removal of non-mainstream expenditure from the AGSRC be redirected into the "non-mainstream schools" (ie direct assistance) and "targeted assistance" for high needs students and related initiatives (ie indirect assistance) funding streams outlined in paragraph 3 of the *Summary and Major Agreements* section.

Figure 2: Total assistance to the non-government sector



$$nexus = \frac{\text{Average Total Assistance (non-government sector)}}{\text{AGSRC}} \geq 25\%$$

CALCULATING THE AGSRC

15. The starting point for all calculations are the DET returns for the MCEETYA National Schools Statistics Collection (NSSC). These, in turn, are based on the *MCEETYA Taskforce on Government Schools Finance and Statistics collection – Notes, Instructions & Tables (NIT) 2002 Issue*.[4] These data are the official submission by DET, the latest being for 2001/02 financial year. They are for all in-scope students and institutions as defined in the NITs and are on an accrual basis.

16. A significant omission from the NSSC returns are expenses for teacher housing, namely the Government Employee Housing Authority (GEHA) expenditure. Discussions with DET[5] have confirmed that the GEHA expense reported by DET is net of deductions from staff salaries[6]. These expenses have a considerable impact on the AGSRC, yet the exposure of the non-government sector to rural and remote areas is relatively smaller than the government sector. Nonetheless, where non-government schools and systems are exposed to placing teachers into these areas they face considerable expenses and consideration should be given to explicit recognition of these issues through the indirect assistance funding stream. This would mean the omission of GEHA expenses from the calculation of the AGSRC. Defining eligibility and determining the funding for the appropriate schools requires further investigation. However, for the time being the calculation of the AGSRC shown below ***includes*** GEHA expenses even though this would be an inefficient way of allocating assistance to where it is needed.

17. Loan servicing costs were included in the 1994 AGSRC review. The Working Party is in agreement that these costs should be included in the calculation of the AGSRC.

18. The way the estimates were derived for the 1994 review was to take the accumulated gross capital expenditure by DET over a 15 year period and assume market rates of interest were paid on this amount. There are a number of reasons why this approach is

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[4] A brief overview is provided at Appendix A.

[5] Held with Mr Bruce Hicks, Coordinator Housing & Transport, DET on 18 December 2003.

[6] If payments to GEHA by DET were not net of staff contributions (ie deductions from their salaries), then this would amount to a double counting of a portion of teachers' salaries (ie the amount of their GEHA co-contribution) in the calculation of the AGSRC.

now regarded as inappropriate. Focussing on gross accumulated capital expenditure does not take into account the fact that debt is retired or reduced from time to time, neither does it account for the fact that capital outlays need not be funded by debt. Capital outlays can be, and are, subsidised or assisted by external funding. For example, the State Government and the DET receive Commonwealth grants specifically for capital expenditure. They can also be offset by asset disposals (see *Budget Paper No. 3*, pp 44-45)[7]. The net effect is to lower the amount of debt that has to be serviced (see *Budget Paper No. 3*, p 37). The other issue with this method is the arbitrary nature of the time period chosen, which for the 1994 review was fifteen years. Shorter or longer periods would have produced a vastly different result.

19. The issue of establishing a loan servicing cost in principle is straight forward and is simply this – what is the level of debt that has to be serviced by DET in any given year and what is the rate of interest it must pay on this? DET, however, does not borrow funds in its own right. The Government borrows on its behalf. Therefore, it is difficult to disentangle from public accounts DET's net debt at any point in time. What is needed is an acceptable way of apportioning the net debt of Government to the activities of DET relevant to this review. The Working Party has agreed that a suitable approach is to use the net debt of the 'General Government Sector' as defined in the Budget Papers and to apportion it according to DET's share of the capital contribution in budget appropriations for any given year. This is described in further detail in paragraph 3 of Appendix C[8].

20. Once the net debt has been imputed to DET, this can be multiplied by the market rate of interest to determine a notional value of loan servicing costs for DET.

21. As discussed at paragraph 15, the basic starting position for the calculation of the AGSRC is to take the expenditure reported by DET for the NSSC returns. From these the following expenditures shown in Table 2 are excluded.

Table 2: Exclusions from the AGSRC

Items out-of-scope	Non-mainstream and high needs related items
Payroll tax	Agricultural schools
Buildings & grounds ("capital investing costs")	School of Isolated and Distance Education
Curriculum Council (non-government component)	Education support centres
Canning & Tuart Colleges	Schools of the Air
Commonwealth Specific Purpose Grants	Socio-Psycho Education Resource (SPER) centres
Capital User Charge	

22. An important consideration in the calculation of the AGSRC is the number of students to be included in the calculation. The NSSC returns for expenditure exclude certain expenditure in direct proportion to the number of students excluded from the returns. In particular, pre-year 1 students are excluded if they are sessional.[9] In practice these turn out to be predominantly four year olds. For this reason the number of full time equivalent (FTE) students recorded by DET and the total expenditure recorded in the DET annual reports and in the Budget Papers will not correspond directly with the respective figures for expenditure and student FTEs in the NSSC returns.

[7] Government of Western Australia, *2002-03 Budget Economic and Fiscal Outlook,* Budget Paper Number 3.
[8] The precise method may need to change from time-to-time depending on the availability and precision of relevant data.
[9] That is, they attend less than 10 half day sessions per week

23. Table 3 incorporates the information above into the calculation of the AGSRC using data for the 2000/01 and 2001/02 financial years. The AGSRC calculated for each of these years would affect the per capita payments to the non-government sector for the 2003 and 2004 calendar years respectively. Expenditure and student numbers for specific included and excluded items are shown in Appendix B.

Table 3: AGSRC for the 2000/01 and 2001/02 financial years

	2000/01	2001/02	Change	% Change
Net students in scope	219,539	223,038	3,499	1.59
Net expenditure in scope	1,523,974	1,652,080	125,743	8.41
AGSRC	**6,942**	**7,407**	**465**	**6.71**

INDIRECT ASSISTANCE

24. In the past the calculation of the 'actual' nexus between the AGSRC and the financial assistance to the sector has included a number of items in addition to the recurrent per capita grants. In the current review the total of these have been labelled *indirect assistance*. Indirect assistance is split further into *general* and *targeted assistance* (see paragraphs 9 & 10).

25. The Working Party has agreed in principle to the inclusion of the following items shown in Table 4 being counted as indirect assistance.

Table 4: Items included as indirect assistance

General assistance	Targeted assistance
Office of Non-Government Education salaries and superannuation	Special education
Miscellaneous assistance	Non-Government School Psychology Service
Teacher travel	Students at risk
Interest subsidy	Secondary assistance
Low Interest Loan Scheme (LILS) subsidy	Clothing allowance
Computers in schools – notional depreciation	Agriculture - boarding away from home
Curriculum Council	Boarding Away from Home Allowance
Transport	***Potential targeted assistance areas***
	Rural and remote housing assistance (consistent with removal of DET GEHA costs from AGSRC)
	Schools of the Air
	School of Isolated and Distance Education
	Education support centres
	Socio-Psycho Education Resource (SPER) centres

26. Transport assistance is provided by the Department of Planning and Infrastructure (Transport Division) to both non-government and government students. DET reports a notional figure for the usage by government students based on the last known actual split between non-government and government student usage. The Department was directly responsible for the management and payment of the transport assistance in 1995 and uses the figures from this period to apportion the figure for transport. The apportionment currently used for the MCEETYA NSSC returns is 12.42 per cent for non-government students and 87.58 per cent for government students. This has been adopted for the refined AGSRC.

27. The sale of the Dampier to Perth Natural Gas Pipeline by the previous government in the late 1990s was used to fund the *Computers in Schools* initiative. Under this initiative there was $80m put into the government system and $20m into the non-government sector over four years. The majority of the expenditure went on computers and the remainder directed to professional development, software and cabling. The precise splits for these are not known, so it is assumed that all of the expenditure went to hardware purchases (ie computers). In any given year of the initiative, $20m went into the government sector. Assuming it went entirely on computers, then 25 per cent of the purchase value in the relevant year was accounted for as depreciation and included as an expense in the NSSC returns. Subsequent years are treated the same way. After the fourth year the entire value of a computer has been written off to depreciation. The impact on DET's expenditure is shown in Table 5. By the fourth year the depreciation expense has added $20m to the bottom line for DET. This drives up the AGSRC and results in flow-ons to the non-government sector – over and above the $20m allocated to it for the same initiative.

Table 5: Impact of *Computers in Schools* initiative on DET depreciation expense

	Year 1	Year 2	Year 3	Year 4	Total Depreciation Expense
Purchase ($m)	20.00	20.00	20.00	20.00	
Depreciation (straight line)	25%	25%	25%	25%	
Year 1	5.00				5.00
Year 2	5.00	5.00			10.00
Year 3	5.00	5.00	5.00		15.00
Year 4	5.00	5.00	5.00	5.00	20.00
Year 5		5.00	5.00	5.00	15.00
Year 6			5.00	5.00	10.00
Year 7				5.00	5.00
Year 8					0.00

28. Since depreciation is reflected in DET's expenditure, the AGSRC is increased accordingly, which in turn flows through to the non-government sector in the form of increases in the recurrent per capita grants. For consistency, it has been agreed by the Working Party that an imputed value of the depreciation on computers bought with the non-government sector's share of the *Computers in Schools* initiative be included as indirect assistance. The way it is calculated is as shown in Table 5 above. For the 2001/02 financial year the depreciation expense imputed to the non-government sector was $3.75m. It will peak in the following year and then taper off to zero within four years.

29. Curriculum Council expenditure is included in the NSSC returns by DET. The full amount is included, even though both sectors receive the benefit. The Working Party is in agreement that the Curriculum Council expenditure should be apportioned between both sectors for the purpose of calculating the AGSRC and indirect assistance.

30. There is also agreement that the cost of running the Office of Non-Government Education should be counted as indirect assistance. The data have been supplied by the DES and are those figures supplied to the Office of the Auditor-General.

31. Other items shown in Table 4 are either accounted for directly by DET or DES.

32. The notional indirect assistance to the non-government sector through the Low Interest Loan Scheme (LILS) has, in the past, been determined using the difference between the market rate of interest and the rate that the sector must pay on outstanding debt to DES. The value of LILS using this method is shown in Table 6.

Table 6: Imputed value of Low Interest Loan Scheme (LILS)

Method of calculation	2000/01 $m	2001/02 $m
Imputed value of LILS at market rate	16.004	14.68

DIRECT ASSISTANCE

33. Direct Assistance is a relatively straightforward matter. It is simply the amount flowing through to the non-government sector through the recurrent per capita grants. The rates that applied for 2003 have been used to derive the weighted average recurrent per capita grant for that year. Since the rates have also been set for 2004 it has also been possible to estimate what the average per capita rate will be, based on projected student enrolments in 2004. This allows an estimate of the nexus to also be calculated. There is agreement among the Working Part group that the direct assistance in future will include a non-mainstream school channel comprising the CEO's two Agricultural schools. These currently have a total of 180 students between them. An analysis of the impact this will have on funding to the non-government sector is provided in Appendix D.

AGSRC, TOTAL ASSISTANCE AND NEXUS

34. All of the components are shown in Table 7 and Figures 3 & 4 for the calculation of the AGSRC, the amount of total assistance provided to the sector and the nexus. Full details are provided at Appendix B.

Table 7: AGSRC, Total assistance and nexus

	2000/01	2001/02	change	% change
Net expenditure in-scope* ($m)	1,523,974	1,652,080	128,105	8.41
Government students (in-scope)	219,539	223,038	3,499	1.59
AGSRC ($/hd)	6,942	7,407	465	6.71
25 per cent of AGSRC ($/hd)	1,735	1,852	116	6.71
Indirect Assistance ($m)	34,719	35,576	0.857	2.47
Non-government students	104,197	106,471	2,274	2.18
Average Indirect assistance ($/hd)	333	334	1	0.3
Recurrent per capita grant# ($/hd)	1,549	1,592	43	2.78
Total assistance per capita (TA) ($/hd)	1,882	1,926	44	2.34
Nexus (TA/AGSRC)	27.11	26.00	-1.11	-4.09

* Includes net GEHA expenditure.

Weighted average.

Figure 3: AGSRC for 2001/02 financial year for 2004 calendar year funding

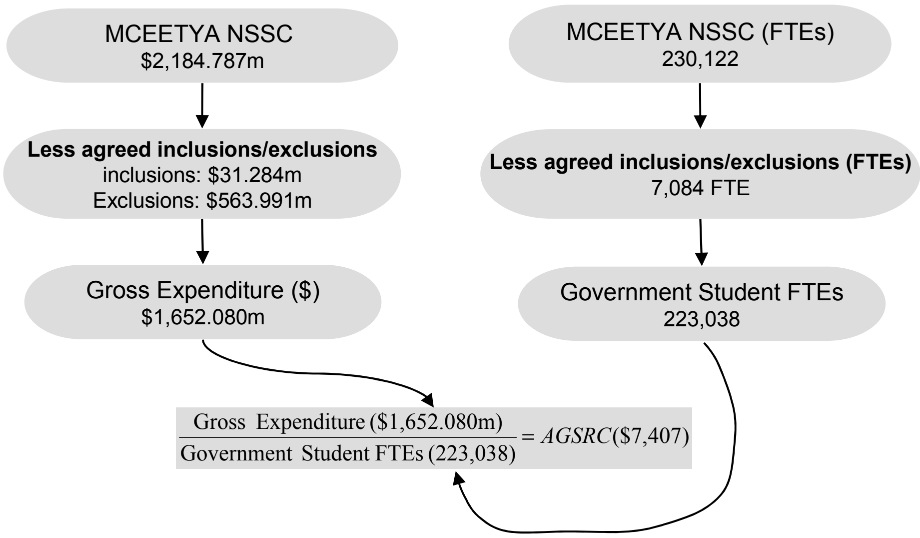
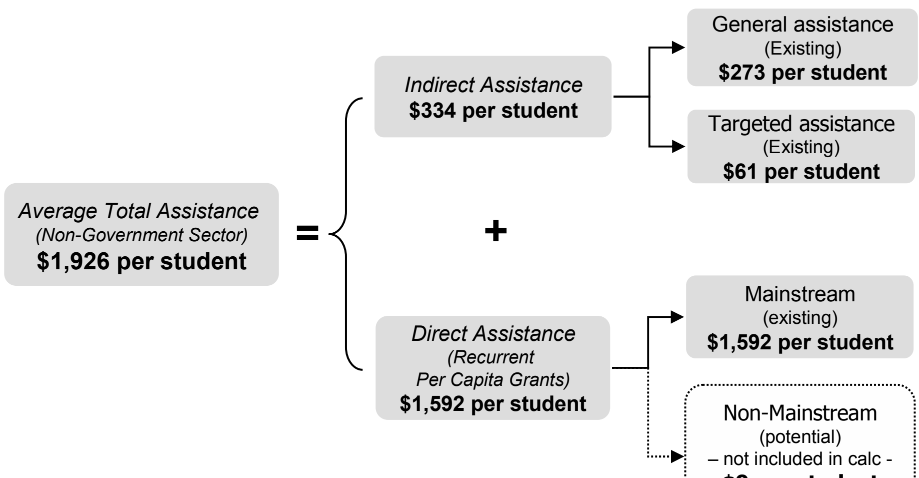


Figure 4: Total assistance for 2001/02 financial year



$$nexus = \frac{\text{Average Total Assistance (non - government sector)}}{\text{AGSRC}} \geq 25\%$$

$$nexus = \frac{\$1{,}926}{\$7{,}407} \geq 25\% = 26.00$$

PART 2: STATE PER CAPITA GRANTS DISTRIBUTION MECHANISM

INTRODUCTION

1. Needs based funding categories for differentiating State per capita grants to Western Australian non-government schools have been in place since 1985. The system was adopted when the Commonwealth Government introduced the ERI as a needs based mechanism for distributing Commonwealth per capita grants to non-government schools.

2. The current State funding categories are based on the original 12 Commonwealth ERI funding categories. These categories were reduced to 6 State categories by combining ERI categories, except that ERI category 12 remains as a single high needs category. In more recent times the State Government created two additional high needs categories paying higher per capita grants for students at non-government schools in specific circumstances, eg schools located in remote areas which are the sole providers of schooling in those localities, and schools catering for students at significant education risk.

3. For each of the eight basic State funding categories, three levels of per capita grants are provided, separately, for kindergarten, primary (including pre-primary) and secondary students.

NEEDS BASED FUNDING MODELS

4. "The ERI is primarily an indicator of the capacity of non-government schools and systems to generate funds on their own behalf. It measures the need for government assistance on the basis of the shortfall between a school's private income and a standard level of resources based on government school per student costs".[10]

5. Apart from several low enrolment independent schools charging low and mid level fees that were unfairly placed in the same funding categories as well-resourced high fee independent schools, the ERI was accepted as a mechanism for the ranking of non-government schools and systems in Western Australia. The CEO and AISWA representatives indicated during this review their overall satisfaction with the ERI based funding categories for distribution of State per capita grants.

6. AISWA has suggested that Commonwealth SES scores would only need to be used as an additional "moderating" variable, if necessary, when considering whether to re-categorise the independent schools that had been anomalously classified by the Commonwealth as mentioned above.

7. Similarly, the SES scores might be useful when there is need to categorise a new school into one of the State funding categories given that the Commonwealth no longer calculates the ERI. Otherwise, it is expected that a new school would be categorised through comparison with existing like schools in terms of relevant variables such as

[10] Department of Employment, Education, Training and Youth Affairs, *Schools Funding: Consultation Report*, Commonwealth of Australia, Canberra, 1997, p29.

school location, educational levels, enrolment size, tuition fees and other compulsory charges levied. School fees are regarded as a reasonably reliable indicator of the private resources available to an independent school. For example at schools where fees are traditionally high and exceed the AGSRC, in some cases by as much as 50 percent, indicators of high resource levels are given by characteristics such as lower class sizes, greater breadth of subjects, higher levels of student support services (school psychologists, teacher assistants for special needs, etc) and payment of higher staff salaries.

8. Analysis of information about fees at independent schools showed distinct differences in the *average* fees for schools within each State funding category (although there was some overlap in the fee range within the higher funded categories), with the largest difference exhibited between high fee category 1,2,3 schools and category 4,5 schools, and much smaller differences between all other categories. Average fees in each State funding category shown in Table 8 are based on fees reported by schools where this information could be obtained. Knowledge of the average fees and of the fees an intending new school will charge should assist in assigning the school to an appropriate funding category.

Table 8: Average fees charged by independent schools in 2003/04

State funding category	Average Primary fee $	Average Secondary fee $
1,2,3	6,444	9,354
4,5	4,000	No schools with secondary
6,7	3,812	5,855
8,9	1,926	2,882
10,11	1,625	2,346
12	825	1,296*
Students at risk schools	500	1,000
Remote sole provider schools	None or nominal	None or nominal

* Excludes Aboriginal Independent Community Schools not included under the "remote" category where there are no or nominal fees.

9. Despite on-going reviews of the funding models in other States, it is noteworthy that the ERI is still in use as the only method for distributing grants across schools in three States (New South Wales, Victoria, and the Australian Capital Territory) and in one State, Queensland, it forms a part of the grants distribution model. Only Tasmania has adopted the SES model. South Australia and the Northern Territory, historically, have maintained different models in any case. The position in each State is summarised in Table 9, which also shows the relationship between non-government funding and the AGSRC in each State. This information was provided by each State's agency responsible for non-government schools funding and ratified at the October 2003 National Meeting of Non-Government School Program Managers.

Table 9: Interstate comparisons of non-government school funding models

State/ Territory	AGSRC basis for funding	Nexus percentage with refined AGSRC	Needs-based distribution mechanism for grants
WA	State AGSRC – refined	"At least 25%" policy (funding in 2004 was approximately 26%)	8 rates *based* around ERI categories
NSW	State AGSRC – refined	25% policy	12 rates for ERI categories
Vic	No AGSRC link: Funding as provided in each year's Budget	No official policy (current equivalent with AGSRC is estimated to be 13-14%)	12 rates for ERI categories
Qld	State AGSRC – refined	21% policy	Base component plus a needs component determined according to combination of ERI, SES, isolation factor and student needs
SA	No AGSRC link: Previous year's allocation adjusted for inflation and ad hoc reasons (eg allowance for salary increases)	No reported or estimated nexus with AGSRC	Base component plus needs component determined according to unique set of SES-related factors on each student
Tas	State AGSRC – refined	25% policy	SES scores
ACT	No AGSRC link: Previous year's allocation adjusted for CPI	No reported or estimated nexus with AGSRC	12 rates for ERI categories
NT	Territory AGSRC (previous year's government schools "costs pool") – refined	21% policy	3 rates for each of primary schools, secondary schools and remote schools

NOMENCLATURE

10. Whilst the State funding categories have been labelled as if they were the same as the ERI categories, they are actually different due to the combining of ERI categories. The addition of two further funding categories also added to confusion in terminology. Moreover, the decision to cap grants in 2004 to one particular high fee school outside category 1,2,3, and to exempt other category 1,2,3 schools from the capping, has further compounded the difficulty with categories and labels. Effectively, there are now 10 different State funding categories, albeit two of which are temporary, pending the proposals outlined below to re-categorise the schools in question.

11. The correspondence between the Commonwealth ERI and the current 2004 State funding categories is shown in Table 10 in order of increasing value of State per capita grants. The final column of this table indicates the proposed alphabetic labelling of these funding categories. Depending upon the decisions made as a consequence of this review about re-categorising schools and including new categories for non-mainstream schools (ie Agricultural schools), the categories and their alphabetic designations may require changing again in the future.

Table 10: Nomenclature for State funding categories

Commonwealth ERI Funding categories	Current State funding categories	Proposed alphabetic State funding categories
1,2,3	1,2,3	A
-	*	B
4,5	4,5	C
-	#	D
6, 7	6,7	E
8, 9	8,9	F
10, 11	10,11	G
12	12	H
n.a.	Students at risk schools	I
n.a.	Remote sole provider schools	J

* Includes schools previously in State category 1,2,3 that were exempt from capping of grants in 2004 and are maintained in a category of their own.

Includes one high fee school, previously in State category 6,7 which has its own category because its 2003 grants were capped in 2004.

RE-CATEGORISATION OF SCHOOLS

12. Partial acknowledgement of the Commonwealth's anomalous categorisation of several independent schools was given by the State Government in 2003 when two particular mid and low fee category 1,2,3 schools were exempted from the policy decision to cap grants in 2004, while one traditionally high fee category 6,7 school was also capped. This school was re-categorised by the Commonwealth about six months before the abolition of the ERI from category 3 to category 6 even though the school remained, and continues to remain, a high fee school.

13. In the case of the low and mid fee schools, although charging fees lower than the State funding category average, they were identified as anomalies primarily because under the Commonwealth's ERI calculation, a monetary value for "contributed services" was assigned to the unpaid volunteers who provided certain services to each school, thereby artificially inflating the schools' financial resources. Hence, the Commonwealth assigned these schools to lower funded ERI categories.

14. On the other hand, the ERI calculation was capable of "manipulation" in order to categorise and re-categorise schools into higher funded ERI categories, despite some schools now charging fees above the average for the category they were subsequently allocated to.

15. Several schools in the circumstances described above were identified during this review for possible State funding re-categorisation. It was noted that the most likely means for providing higher levels of funding to several of the schools is by achieving "savings" from re-categorising other schools into lower funded categories. However, this would not be possible until after a period of "funding guarantee" (ie provision of "0%" indexation increases over the period required), to allow the per capita grants for the categories these schools would be placed in to reach the amounts they currently receive. The State funding categories for all other independent and Catholic schools are to remain unchanged.

16. It is likely that following this review AISWA will make representations on behalf of the identified schools and at that point a submission can be presented to the Minister to consider and approve their re-categorisation, ideally from the commencement of a new school year (ie in 2005).

REVIEW OF CATEGORIES

17. A mechanism is required to trigger periodic review of a school's State funding categorisation. From the description given above about the use of fees, it is possible that significant increases in a school's fees and charges (subject to allowances made for applying annual AGSRC indexation or equivalent adjustment) could result in a review of the school's State funding category. Information about fees and other compulsory charges would need to be periodically obtained from the school directly or from the Financial Questionnaire returned annually to the Commonwealth Government by the school.

GRANTS DIFFERENTIAL

18. Concern has been expressed in government circles for several years about Western Australia's differential in per capita grants between the highest and lowest funded schools. Compared with other States and Territories this State has a narrower differential, which favours high fee schools at the expense of low fee schools and special needs assistance in both the government and non-government sectors. Therefore, following this review and agreement to retain a category based system, the opportunity exists to widen the grants differential.

19. The current differentials for Kindergarten, Primary (including Pre-primary) and Secondary per capita grants can be illustrated by comparing the grant values in each category and expressing them as percentages of the refined AGSRC (separately for Primary and Secondary) (see table and graph below). The narrow differentials are illustrated by the "flatness" in the graph for grants between category A and category H. All high fee schools are included under category A, except one that due to capping of grants in 2004 is in category D for the time being.

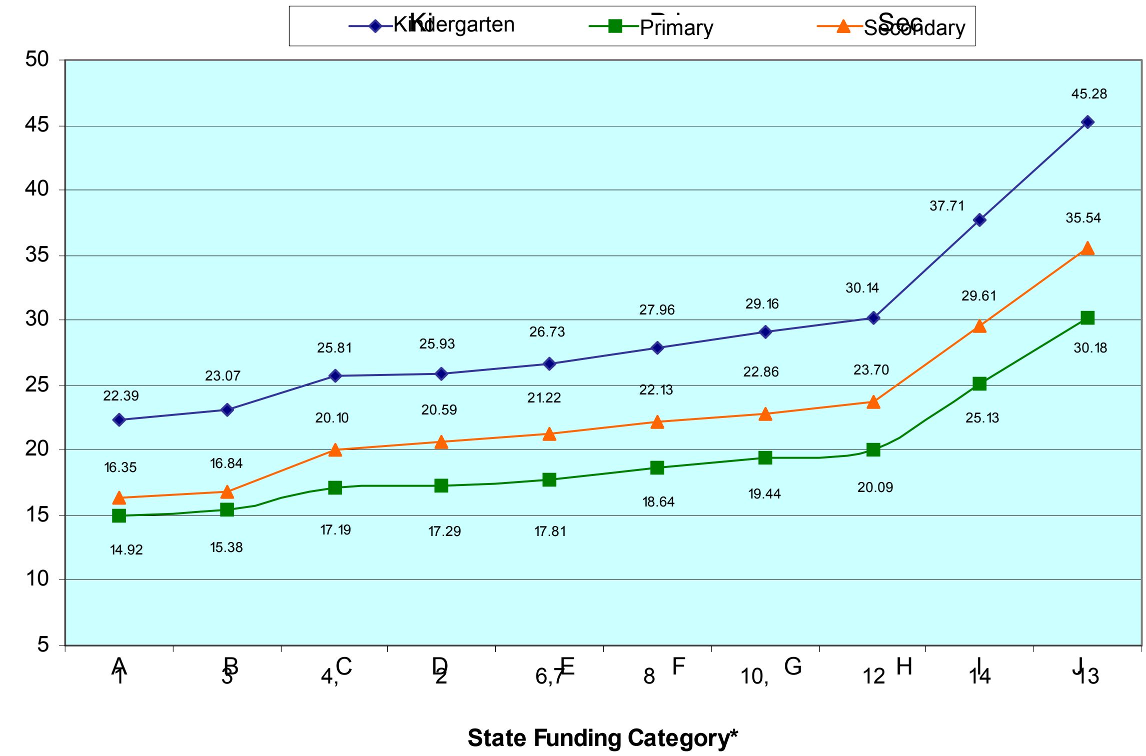
Table 11: 2004 per capita grants as percentages of *Refined* AGSRC

State Alphabetic Funding Category*	2004 Kindergarten Per Capita Rate	Percentage nexus with Primary AGSRC#	2004 Primary Per Capita Rate	Percentage nexus with Primary AGSRC#	2004 Secondary Per capita Rate	Percentage nexus with Secondary AGSRC#
	$	%	$	%	$	%
A	1 456	22.4	970	14.9	1 472	16.4
B	1 500	23.1	1 000	15.4	1 516	16.8
C	1 678	25.8	1 118	17.2	1 810	20.1
D	1 686	25.9	1 124	17.3	1 854	20.6
E	1 738	26.7	1 158	17.8	1 910	21.2
F	1 818	28.0	1 212	18.6	1 992	22.1
G	1 896	29.2	1 264	19.4	2 058	22.9
H	1 960	30.1	1 306	20.1	2 134	23.7
I	2 452	37.7	1 634	25.1	2 666	29.6
J	2 944	45.3	1 962	30.2	3 200	35.5

* Alphabetic categories as per the correspondence shown in Table 10.

\# Nexus derived from calculated refined Primary AGSRC of $6,502 and refined Secondary AGSRC of $9,003 in 2001/02 (figures supplied by Ross Kelly from 2001/02 DET data).

Figure 5: 2004 per capita grants as percentages of *Refined* AGSRC



* Alphabetic categories as per the correspondence shown in Table 11

20. A step towards widening the differential in grants was commenced when the Minister capped the 2004 grants to high fee schools at their 2003 levels. Further capping (ie "0%" increases) would see the differential widen over time. Capping grants over a number of years is a more realistic approach to achieving the desired outcome rather than enforcement of a real reduction in a lesser period of time. This is equivalent to the "funding guarantee" approach used by the Commonwealth to facilitate the introduction of the SES model. This strategy minimises the effect on schools and allows them time to re-adjust their own finances.

21. One possible target for reducing grants to high fee schools would be not less than the current Commonwealth minimum of 13.7 per cent of the relevant AGSRC – a figure that the Minister has stated the Commonwealth should provide as minimum funding to government schools. Given anticipated growth in the AGSRC in future years, it would take further capping until 2006 (for Primary) and 2008 (for Secondary) for category 1,2,3 grants to reach the minimum of the respective Primary and Secondary AGSRCs (grants are currently 14.92 per cent and 16.35 per cent respectively).

APPENDIX A

OVERVIEW OF MCEETYA GUIDELINES

- Data are reported on an accrual basis for the latest collection and have been since 1999/00 financial year.
- The scope of included establishments is comprehensive, ie any establishment can be considered where relevant.
- The guidelines state that superannuation is reported, but not published due to inaccurate measurement in some States. However, it is included in the returns for the National Schools Statistics Collection (NSSC) and makes up part of the salary expense.
- WA reports the Capital User Charge (CUC) at a rate of 8 per cent of the net assets of in-scope institutions for DET.
- WA calculates a notional payroll tax figure on the basis of salary data. These have been excluded in the latest submission by the Department of Education and Training (DET) to the NSSC.
- Data on pre-school students are excluded from the collection, including those that attend in-scope schools. For 2001/02 around $22.9m was excluded due to pre-primary out of $2.28bn (inclusive of pre-primary). This equates to 1.0 per cent of total education expenditures (on accrual basis including payroll tax, capital and capital user charges).
- Special education is included in the collection.

Specific exclusions & inclusions

- See Appendix 1 from 2002 MCEETYA - Notes, Instructions & Tables (NITs)

Information from DET

- Pre-year 1 are excluded if they are sessional (ie the 4yo). The full-time pre-year 1s are 'in-scope'. This adds 10,593 FTE students to the collection.
- DET currently includes students (and expenditure) from Canning and Tuart Colleges in the 2001/02 collection. For 2002/03 they are to be excluded (counted as VET, and therefore excluded as described at 1.3.5-1 Note 6 (ii) of the MCEETYA NITs).
- Both the 2000 and 2002 NITs state that adult education and VET are to be excluded from the collection. Canning and Tuart Colleges substantially meet the requirements of adult education.

STUDENT NUMBERS AND EXPENDITURES EXCLUDED AND AREAS OF INDIRECT ASSISTANCE

Table B1: Students excluded from the calculation of the AGSRC

Institution	**2000/01**	**2001/02**
Government students	226,275	230,122
Canning & Tuart Colleges	2,248	2,435
Agricultural schools	429	437
Socio-Psycho Education Resource (SPER) centres	n.a.	n.a.
Education support centres	3,202	3,380
School of the Air	316	296
School of Isolated and Distance Education	541	536
Total excluded	*6,736*	*7,084*
Net students in-scope	**219,539**	**223,038**

Table B2: Expenditure and the AGSRC

Expenditure Item	**2000-01**	**2001-02**
	($) 000's	($) 000's
Gross expenditure*	2,124,532	2,184,787
Additional items not included in NSSC:		
Loan servicing costs	3,785	12,922
Net Government Employee Housing Authority (GEHA)	15,800	18,362
Sub total expenditure	*2,144,117*	*2,216,071*
Items to be excluded from the AGSRC		
Out-of-scope		
Payroll tax	55,035	na
Buildings & grounds ("capital investing costs")	133,153	133,662
Curriculum Council (non-government component)	2,138	2,040
Canning & Tuart Colleges	10,917	12,419
Commonwealth Specific Purpose Grants	46,271	34,328
Capital User Charge	292,130	295,640
Sub-total out-of-scope	*539,644*	*478,089*
Potential non-mainstream and targeted assistance areas		
Schools of the Air	3,234	3,291
School of Isolated and Distance Education	11,306	11,655
Education support centres	53,500	56,533
Agricultural schools#	11,503	13,081
Socio-Psycho Education Resource (SPER) centres	956	1,342
Sub-total special needs	*80,499*	*85,902*
Sub total excluded items (out-of-scope+non-mainstream+targeted)	*620,143*	*563,991*
Net Expenditure In Scope	**1,523,974**	**1,652,080**
Net students in scope	219,539	223,038
AGSRC	**6,942**	**7,407**

* This figure includes a capital user charge that has been scaled up to make it comparable with the 2001/02 capital user charge. Therefore it will differ from the Capital User Charge of $262m reported in the 2000/01 NSSC returns.

Potential 'non-mainstream' designated schools.

Table B3: Indirect assistance

Indirect Assistance Provided	**2000/01**	**2001/02**
	($) 000's	($) 000's
Office of Non-Government Education salaries +	853	771
- Superannuation	29	35
- Other	85	91
Teacher travel	0	0
Interest subsidy	604	473
Miscellaneous expenditure (DES)	29	25
Low Interest Loan Scheme (LILS) subsidy	16,004	14,678
Computers In Schools – depreciation	2,500	3,750
Curriculum Council	2,138	2,040
Transport	6,754	7,200
sub-total general assistance	*28,996*	*29,063*
Targeted assistance		
Non-government School Psychology Service	1,427	1,646
Special education assistance	1,777	2,197
Students at risk	277	224
Boarding Away from Home Allowance	693	693
Secondary assistance	1,103	1,147
Clothing allowance	405	554
Agriculture Boarding Away From Home Allowance	41	52
Sub-total targeted assistance	*5,723*	*6,513*
Total indirect assistance	**34,719**	**35,576**
Non-government students	104,197	106,471
Average indirect assistance	**333**	**334**

APPENDIX C

CALCULATION OF THE AGGREGATE VALUE OF THE LOW INTEREST LOAN SUBSIDY AND LOAN SERVICING COSTS

1. Previously the value of the interest subsidy to the non-government sector has been calculated by taking the total interest payments that would be made on a loan of $25m that is paid off over 15 years at a rate of 7.5 per cent. This is unsatisfactory for a number of reasons. First, it does not readily allow for the rates to be recalculated as the interest rate changes for either the subsidy or the market rate of interest. Second, it has no direct relationship between the level of debt to be serviced in any given year by the non-government sector. The imputed values of the debt in calculations of the LILS subsidy previously presented to the Working Party have remained unchanged for the past three years. In practice we know that both Treasury rates and market rates have changed significantly over this time. Further, these have had a direct influence on the value of the interest charges on LILS in any given year. The Western Australian Treasury Corporation (WATC) can and does change the rate of interest charged to DES.

2. The calculations of the interest component of the debt were carried out for the 2000/01 and 2001/02 financial years. The interest rates that apply to the loans sourced through LILS vary depending on which year they were obtained, the source of funds and the particular application of the funds. The approach has been to take the weighted average of interest rates that apply to the various loans held by the non-government sector. These were supplied by DES. The final value of the subsidy is determined by taking the difference between the rate that is charged for LILS and the market rate.

3. The way that DET's level of debt is derived for any given year and what it costs to service is as follows: DET's share of the net debt of the general government sector is determined by taking the net capital contribution that is advanced to DET through the budget appropriations in the relevant financial year as a share of the total capital contributions for the general government sector. This provides an approximate guide to the debt that must be serviced on DET's behalf in any given year. The market interest rate is then applied to this imputed debt to establish the loan servicing costs for the year in question.

4. The key information is shown in Table C1. In the 2001/02 financial year the total general government debt was $993.1m (line 1). The capital contribution for the whole sector was $570.2m (line 2), for DET the capital contribution was $88.96m (line 3). DET's share was, thus, 15.6 per cent (line 4). This share of the total debt equates to $154.94m (line 5). Taking market rates of interest (line 6), obtained from the Australian Bureau of Statistics[11], and applying this to the imputed level of debt to be serviced by DET (line 5) gives a loan servicing cost for 2001/02 of $12.92m (line 7). This figure is then added as an item of DET's expenditure for the calculation of the AGSRC.

[11] The NIF Modeler's database. The rate is determined as the arithmetic average of the 2002 calendar year of the average of major trading banks advances.

5. The calculation of the aggregate value of the LILS subsidy is shown on lines 8-11. The weighted average of the subsidised interest rate of loans to the sector for the 2001/02 financial year was 2.05 per cent (line 8), the market rate was 8.34 per cent (line 6) – the same rate applied in the calculation of the loan servicing costs for DET – the difference between the subsidised rate and the market rate was 6.29 per cent (line 9) and the level of outstanding debt held by the non-government sector was approximately $237m (line 10). This resulted in indirect assistance worth approximately $14.68m to the non-government sector for the 2001/02 financial year.

Table C1

	Data and assumptions	**2000/01**	**2001/02**
	Loan Servicing Costs		
1	General Government net debt (as at June 30 2002) ($m)	458.5	993.1
2	General Government capital contribution ($m)	920.8	570.2
3	DET capital contribution ($m)	84.27	88.96
4	DET share of capital contribution (%)	9.15%	15.60%
5	DET share of general Government net debt ($m)	42.0	154.94
6	Market rates (ABS NIF 12 modelers database) (%)	9.02	8.34
7	**Servicing costs at market rate of (00/01 fy 9.02%; 0/02 fy =8.34%) ($m)**	**3.78**	**12.92**
	Low Interest Loan Scheme (LILS) subsidy		
8	Weighted average LILS rate (average rate the sector pays on all loan types)	2.05	2.05
9	Average subsidy rate -market (gap between market rate and LILS rate)	6.97	6.29
10	Non-government net debt ($m)	233	237
11	**Imputed value of LILS at market rate ($m)**	**16.004**	**14.68**

CASE STUDY: IMPACT OF SPECIAL NEEDS ON BUDGET AND NON-GOVERNMENT SECTOR OUTCOMES – AGRICULTURAL SCHOOLS

1. The following case study examines the impact of funding a 'designated non-mainstream school" in the non-government sector as proposed in Part 1 of this report. The example modelled here is that of Catholic Agricultural schools.

2. The analysis addresses the following questions:
   - What happens to the value of the AGSRC if government expenditure on Agricultural schools is removed?
   - What is the net financial cost for government?
   - What is the net financial impact for the Catholic sector[12]?

3. The answer to these questions is contingent on how the non-government sector is to be funded for the students they have enrolled in Agricultural schools. The recommended approach is to calculate an AGSRC for government Agricultural schools and use this as the basis for funding, in the same way as mainstream schools. Thus, the sector would receive 25 per cent of the government "Agricultural school" AGSRC. This has been estimated at $22,959 for the 2001/02 financial year and would apply to the 2004 calendar year enrolments.

4. Currently there are 180 students in Agricultural schools in the Catholic sector. The AGSRC for government Agricultural schools is $22,959, which would require *total* assistance of $5,740 per student (assuming a nexus of 25 per cent). The equivalent of $296[13] per student would be provided to these students through indirect assistance leaving further financial assistance of $5,444 to be paid to bring the total assistance up to 25 per cent. Thus, the financial outlay by government using this approach would be 180 students @ $5,444 each, or $979,927. This is summarised in Table D1.

Table D1

Agricultural schools	Expenditure removed from AGSRC
Sector	Catholic
Students	180
Agricultural school AGSRC	$22,959
Rate	25.0%
Total assistance @ 25%	$5,740
Indirect assistance already provided (general only)	$296
Net required assistance	$5,444
Cost to government	$979,927

[12] Currently only the Catholic sector has students enrolled in Agricultural schools. Systemic and non-systemic Catholic schools are enumerated together for the purpose of exposition. This is not expected to have a significant bearing on the results.

[13] This is slightly lower than the $334 shown in Figure 4, since some indirect assistance provided to the non-government sector in total would not apply specifically to Agricultural schools.

5. The question that arises is what happens to the standard (ie existing) AGSRC when the Agricultural school expenditure for government schools is removed? The AGSRC falls by $42.80, which equates to a fall of $10.70 per student that the remainder of the non-government sector receive through the recurrent grants (i.e. direct assistance). The calculations are as follows: 110,336 students in the non-government sector receive $10.70 less than if the expenditure on Agricultural schools had been left in the standard AGSRC. This equates to a $1,180,618 reduction in recurrent per capita grants. Offsetting this is the $970,927 that would now be paid for the 180 Catholic Agricultural school students. Thus, the net saving to government is $200,691. The Catholic sector receive $979,927 for their 180 Agricultural school students, but receive $10.70 per student less than they otherwise would have for the remainder of their students. The reduction amounts to $711,532. The net result for the Catholic sector under this approach to funding is a net gain of $268,396 (see Table D2). The same logic applies to areas of targeted assistance.

Table D2

Saving to State Government	
Non-government students (net of Agricultural schools)	110,336
Reduction in standard AGSRC	$42.80
Nexus of 25%	$10.70
Reduction in recurrent per capita grants (direct assistance)	$1,180,618
Saving to State Government	$200,691
Outcome for Catholic Education Commission	
180 students @ $5,444	$979,927
Less 66,497 students @ $10.70	$711,532
Net gain	$268,396

6. To conclude, the savings from a refined AGSRC provide a pool of funds that can be redirected to areas of policy priority, such as the various high need areas that exist in the non-government sector (some of these may be in mainstream or non-mainstream schools). As a result, non-mainstream assistance does not necessarily result in a need for greater budget allocations. It is simply a more equitable and targeted approach to allocating funds appropriated to the non-government sector. Under this approach, less emphasis is placed on recurrent allocations that are automatically indexed to an ‘all-in’ measure of government education expenditures. More thought is given to what is transmitted through the AGSRC and what the implications are for equity outcomes.