



The needs-based funding arrangement for the NSW Catholic schools system

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A. Introduction

The NSW Catholic schools system (the System) educates approximately 217,000 school students in 552 schools in NSW. In 2020, the System will receive \$2.8 billion of recurrent grants from the Commonwealth and NSW State governments. In the same period it will raise approximately \$650 million in income from private sources, predominantly parental school fees. This document sets out the needs-based funding arrangements that will apply to the deployment of these funds for the benefit of our students.

B. Background

The Approved System Authority for the NSW Catholic schools system

The Approved System Authority (ASA) for the NSW Catholic schools system was, from 1 January 1974 until 31 December 2017, the Catholic Education Commission of NSW (CECNSW). From the start of 2018, this role was assumed by a new entity, Catholic Schools New South Wales Limited (CSNSW). Consequently, CSNSW is currently the responsible entity for the funding arrangements that will be applied across NSW systemic Catholic schools.

For the avoidance of confusion, it should be noted that the role of the ASA as a funding body applies only to those NSW Catholic schools that are part of the NSW Catholic system (the System). Independent Catholic schools in NSW, sometimes called congregational schools, are not part of the System and are funded separately by governments.

The legislative and policy framework

The *Australian Education Act 2013* (AEA) came into effect on 1 January 2014. The AEA seeks to implement the Commonwealth's response to recommendations from the Gonski Review of funding of school education. The AEA introduction and the associated *Regulation* provided an unprecedented specification of the elements required for any system grants distribution methodology.

In response to the Commonwealth legislation, the *NSW Education Act 1990* was amended to align both Commonwealth and State grants mechanisms for NSW non-government schools, including the Catholic schools' system. Moreover, there was a National Education Reform Agreement between the Commonwealth and the NSW governments to align the requirement for government grants to be spent according to a needs-based funding arrangement. This has since been superseded by the National Schools Reform Agreement (applicable since 2019).

During 2017, the Australian government altered the funding arrangements and associated legislation for the 2018 year and beyond. The key elements of these funding arrangements are as follows:

- The re-affirmation and confirmation of the right of Approved System Authorities, such as CSNSW, to allocate their total grant funds to their system schools as they best saw fit, subject to the general provisions of needs-based funding arrangements as set out in the AEA
- The use of the Nationally Consistent Collection of Data (NCCD) for students with disability to establish the funding for students with a disability for 2018 and beyond

- Revised arrangements for transition to a consistent funding level standard across all Australian schools
- Updates to the index used as a proxy for capacity to contribute by school communities (the Socio-Economic Status index, referred to as “SES”). The removal of the “system-weighted average SES” for systems to be replaced by the use of individual schools’ SES scores in determining funding. The SES score has since been replaced with a more refined measure of capacity-to-contribute, called the Direct Measure of Income (DMI).

In response, the NSW Government moved in the latter part of 2017 to accommodate the legislative and funding changes applied at the Commonwealth level. It implemented an interim funding arrangement for NSW State recurrent funding arrangements in 2018. In 2019, it adopted the funding approach taken by the Commonwealth government under the AEA.

Furthermore, the Australian Government has instituted a further two major initiatives. Firstly, it has established the National Schools Resourcing Board with a remit to advise the Australian Government on policy and administrative matters concerning school funding and resourcing arrangements. One of its first tasks was to review the appropriateness of the use of SES scores as measures of capacity to contribute in the school funding arrangements. A second initiative is the establishment of a review, to be chaired by David Gonski to examine how best to improve educational effectiveness (the Gonski Review).

In 2018 the Commonwealth government created the Choice and Affordability Fund (CAF), which supports schools in the non-government sector to support parental choice and provide affordable school options. The CAF commences in 2020 and is scheduled to distribute approximately \$180 million to NSW Catholic systemic schools over a period of ten years.

Response of the ASA for the NSW Catholic schools system to legislative changes

The NSW Catholic schools’ system is the largest non-government school system in Australia. Like other large systems of schools, the System has sought to transition carefully and deliberately from its pre-2014 model for distributing Commonwealth and NSW Government grants to accommodate the legislative funding arrangements that have occurred and continue to occur since 2014.

A continuing programme of changes and improvements has been implemented by the ASA for the NSW Catholic system from 2014. This has included:

- a) The reporting of recurrent funding allocations to the Australian Government Department of Education, Skills and Employment (AGDESE) under its Financial Accountability (FA) process, which involves reporting amounts of base funding and loadings for disadvantage for each of our 552 schools, backed by detailed financial accounting data. This was implemented for the first time for the 2015 calendar year and further improvements and refinements have been made in each subsequent year.
- b) The reporting of detailed financial information on income and expenditure for each of our 552 schools for AGDESE’s annual Financial Questionnaire (FQ) process, including:
 - reconciliations of the FQ data to audited financial statements
 - reviews of detailed accounting policies and practices to ensure increased data conformity and integrity including expert advice from specialist accounting firms
 - participation in and submissions to expert panels addressing the complexities of introducing and refining reporting policies capable of being implemented effectively across all Australian schools and myriad systems within Australian school education.
- c) The reporting of data for each school to ACARA for publishing on the MySchool website,

which is accessible by the general public

- d) The reporting to the Australian Charities and Non-for-Profits Commission (ACNC) of the Annual Information Statement for each registered school charity and the publishing of audited financial statements for the relevant school entities. These reporting requirements have been evolving and are continuing to evolve in response to increased requirements from the ACNC and changes to accounting standards
- e) The introduction and implementation of a best practice assessment process for the NCCD for students with disability
- f) Continuing refinement of the funding deployment methodologies within the system to accommodate ongoing legislative and regulatory changes, experience with effectiveness of funding deployment methods and better recognition and targeting of each specific student's needs

In short, the NSW Catholic schools' system has made considerable improvements in the allocation, reporting and transparency of its needs-based funding model for a system of 217,000 students, 15,000 teachers and 552 schools. Enhancements are continuing.

C. Summary of CSNSW's needs-based funding arrangement - "System Methodology"

The needs-based funding arrangement, under which CSNSW, as ASA for the NSW Catholic schools system distributes government recurrent grants is summarised below.

Recurrent grants from the Commonwealth and NSW governments are pooled together.

Funds are distributed to schools in a two-stage "cascade" process. In the first stage, the ASA distributes funds to the 11 constituent diocesan schools' authorities (DSAs) within the NSW Catholic school system. In the second stage, each of the 11 diocesan schools' authorities deploys the funds it receives from the CSNSW for the benefit of its own schools within its diocese.

D. Stage One: Distribution of grants from the ASA to diocesan schools authorities

The first stage of this cascade process - the distribution to DSAs - is based on a funding allocation model with the same components as the AEA model, albeit with different values for some key parameters. The elements of this model are:

- The distributions to DSAs are the sum of the amounts calculated for each individual school within in each diocese.
- The loadings for disadvantage for individual schools are set equal to the amounts estimated using the methodology set out in the AEA.
- The capacity-to- contribute (CtC) amounts of each school community are set equal to the amounts calculated under the AEA, except for primary schools with a higher SES/DMI score, where the CtC amounts are limited in size to ensure that the school remains an affordable choice for parents.
- The student resource standard amount per student, as specified in the AEA, is adjusted downwards slightly (as explained below).
- The total amount for a school is calculated as the student resource standard amount less the CtC amount plus the loadings.
- The slight adjustment to the student resource standard, referred to above, is set so that

the sum of the amounts calculated for all schools using this adjustment, equals the amount received from the Australian and NSW State governments.

- The total amount per school in each diocese is then added together to provide the total diocesan distribution amounts. These amounts are provided as cash grants to the 11 dioceses.

CSNSW regularly updates a forecast of total general recurrent grant funding to be received by DSAs for the year, taking into account revised estimates of student enrolments at each school. The precise amount of funding received by each DSA in a year reflects the student population reported in the August school census. Actual payment of the recurrent funding is in instalments during the year, following the receipt of tranches of grant funding from the Commonwealth and State governments.

Note that methodology for distributions to dioceses has evolved considerably since the introduction of the AEA in 2014, reflecting a progressive realignment of funding following the principles specified in the AEA.

E. Stage Two: Diocesan school authorities' deployment of funds for schools

Diocesan schools authorities

Each diocese has a dedicated diocesan schools' authority (DSA, sometimes called a Catholic Schools Office or Catholic Education Office) that is responsible for the administration and operation of the schools within that diocese.

Each DSA has its own management structure and individual processes for the governance and operation of its schools. Further information on each DSA can be found on their websites.

A dedicated DSA in each diocese allows for a closer level of understanding of the needs of each school community. Each DSA is able to use its local knowledge of the schools to balance the needs of its student population within its diocese and determine the appropriate deployment of resources to each school.

The various DSAs provide reports on both educational and financial activity to CSNSW, which collates and reviews the information before submission to AGDESE and other regulatory bodies to meet the System's responsibilities as the ASA.

Sources of funding

DSAs are responsible for the operations of schools within their own diocesan jurisdiction and, as such, are responsible for the total income available for expenditure on their schools. This income is derived from the following sources:

1. Government recurrent grants from both Commonwealth and State Governments totalling \$2.8 billion (forecast for 2020)
2. Government grants for 'targeted programs' which are hypothecated for defined purposes - often very small amounts relative to the recurrent funding grants (less than \$10 million)
3. Private income from parental school fees, totaling approximately \$550 million (estimated for 2020)
4. Other private income, including donations and investment income (including interest earned on government grants) totaling approximately \$100 million (estimated for 2020)

In summary, the largest contributions to income by far come from government recurrent grants and school fees.

Note however that for the purposes of reporting to government, the precise amounts of each category of income, down to the dollar, is accounted for and reported.

In relation to the policies for the setting of school fees, the following applies:

- School fees vary widely across dioceses. The degree of differentiation of fee levels varies considerably across dioceses with a trend to greater differentiation in line with understanding of the capacity to contribute of the school community.
- Accommodation for the capacity of individual families to pay fees is also provided at the local school level. Typically, at the discretion of the local school principal, fee reductions are offered for families who cannot afford the fees or are experiencing financial hardship. Fee discounts are routinely offered for siblings. These fee reductions appear in the form of reduced fee collection rates.

In relation to the expenditure of income, an important point is that all the income is pooled (apart from the small amount of targeted grant income) and expenditure for schools allocated from the total pool.

The pooled funds available for recurrent funding is therefore approximately \$3.5 billion in 2020.

Deploying the funds

Note that the term “deploy” is used rather than “distribute” or “allocate” because the dioceses typically spend the funds centrally on behalf of and for the benefit of schools. A key example of this is teachers’ salaries; payroll is managed centrally by the DSA for all staff. Teachers’ wages are paid directly by the DSA.

Other forms of deployment include paying directly for other operational costs such as electricity or internet. In some dioceses, some grant funding is paid by the DSA directly to schools, which are required to assess their students’ need and utilise the funding to address that need.

The expenditure of recurrent funding for schools and school systems typically falls into the following categories:

- Staff salaries including
 - teaching staff and principals, assistant principals etc
 - school support staff such as librarians, office staff and maintenance staff
 - DSA management and administrative support staff
 - additional staff for special purposes such as counsellors, etc
- School operations costs, such as office services, IT, accounting, audit, etc
- Facility and property costs, such as utilities, maintenance, etc
- Debt servicing costs (interest and principal repayments)
- Expenditure on equipment

Staff salaries typically constitute approximately 80% of the total cash expenditure. Furthermore, the other costs are largely fixed, at least in the short run. Consequently, the most important expenditure decisions relate to the allocation of staff resources.

Furthermore, the minimum salaries of teaching staff and others are set according to the relevant employee enterprise agreements and based on years of service.

Deploying school system funds according to need is primarily concerned with the allocation of staff to schools.

In the first instance, each DSA uses a set of guidelines incorporating various staffing formulas to assist in this allocation process. These initial staffing allocations are typically refined by an expert group of educators who consider a school’s particular circumstances and needs and adjust the original allocation appropriately.

In summary:

- The DSA will review total forecast income from all sources (primarily government general recurrent grants and school fees) ahead of the school year and determine how these funds

will be deployed across all schools, taking into account the needs-based requirements under the legislation

- Each DSA employs education policy personnel, funding policy personnel and other school teaching and learning experts to help make these assessments.

Assessing the need of students and schools to determine resource deployment

A major factor influencing student learning outcomes and addressing need is teacher availability and quality. Considerable work therefore goes into the process for determining the right teacher allocation for each school.

Each DSA uses its own staffing guidelines - which differ for Primary, Secondary, Combined and Special schools - as a basis for setting school staff numbers. These guidelines contain teacher-to-student ratios consistent with the requirements in the NSW Catholic Schools Enterprise Agreement.

A preliminary allocation of teachers is made for each school based on its forecast enrolments. Experts within each DSA then review the outcomes of these formulae and then adjust final teacher allocations to meet the particular needs of student groups or school communities. This includes factors such as:

- the profile of the current student population
- specific needs of students in particular classes
- the existing teaching staff and their skill sets
- requirements to run certain classes to fill curriculum
- meeting the requirements of Vocational Educational Training
- very large class sizes that could be split into streams
- longevity of the principal
- availability of staff in the diocese, and
- any other particular issues to be addressed at a school.

Staffing allocations take into account - explicitly and implicitly - the six categories of disadvantage listed below, which are specified in the AEA:

- Students with Disabilities
- Aboriginal or Torres Strait Islander students
- Students with Low English Proficiency
- Low Index of Community Socio-Educational Advantage (ICSEA)
- Small schools
- Rural and Remote schools

Furthermore, diocesan allocations of staff to schools must necessarily address additional factors - outside those stipulated in the AEA - in order to properly meet the needs of students.

For example, a recent initiative has been to provide extra resources to address matters of student well-being that have surfaced across all socio-economic groups. These extra resources have been reported as an extra loading in the annual reporting to AGDESE. Another example is that DSAs put serious effort into identifying students who may be struggling in their educational progress, irrespective of their socio-economic, cultural or ethnic backgrounds. Despite not being attributable to the broad sociological categories specified in the AEA loadings, these students have real needs, which should be - and are - addressed through extra resources.

Additional staff may be allocated to assist at schools. For instance, it is common to provide teaching aides or support staff at schools with students with disabilities, high indigenous populations, students with language background other than English and schools that have low ICSEA scores.

The staffing allocations will always take into account a school with relatively low enrolments. An entire school may be so small that the teacher to student ratio would only allocate a handful of teachers. However, an assessment of how many teachers are actually required to meet the needs of

that student population could yield considerably more staff and therefore more staff resources will be deployed to that school.

Schools in remote locations also tend to be smaller schools, and therefore the consideration of any additional resources deployed to remote schools is often tied into the staffing allocation when considering size of the school. There are sometimes incentives provided to staff when working in remote locations, such as a car allowance or teacher's housing, and this forms part of the resource deployment for that school.

In addition to staff allocations to schools, each DSA utilises different strategies and programs to address the various types of need identified. These take the form of special learning facilities, extra classes, additional materials, specifically designed learning programs and other initiatives.

Funding for these programs also forms part of the centrally managed functions of the DSA. Once qualifying schools are identified, any resources allocated to these schools, form part of their needs-based deployment of government grant funding. Specialist DSA staff, employed to support the design and implementation of any needs-based strategy, also form part of the resources ultimately deployed for the benefit of schools.

In short, the deployment of resources - mainly staff - within dioceses and across the NSW Catholic schools system is understandably complex, reflecting the complex and individual needs of our 217,000 students. While the funding distribution methodologies for the 11 different dioceses are broadly comparable, they differ at the detailed level, reflecting the differing needs and priorities of different school communities across the dioceses.

F. Accountability for use of funding

CSNSW, as Approved System Authority, will receive general recurrent grant funds from both the Commonwealth and the State. These grants, along with any interest earned on those funds, are regarded as one pool of funds and expended entirely for the benefit of school students at schools within the System.

The total government general recurrent grants for any year is entirely expended within the year on eligible school-related items. None of the recurrent grant funds are retained as surplus funds. Any retained surplus funds are derived solely from private income sources, which are predominantly school fees from parents. An annual sign-off by CSNSW is provided to the Commonwealth government to that effect and that sign-off is externally audited.

The reporting of government grants for individual schools is carried out in accordance with the instructions from AGDESE and following the guidance of ACARA and its auditors.

School fees and other income from private sources are only spent or committed to be spent on school-related activities. In addition, private income is generally not all spent in the year in which it is received because it is necessary and prudent to reserve some of these funds for future non-recurrent needs (See the section on reserves below).

G. The need for reserves

Given that there appears to be some misconceptions regarding cash reserves, the following comments address the need for reserves, which should not be confused with any concept of "profit".

The Australian Charities and Not-for-Profit Commission has publicly stated that charities (such as the NSW Catholic Schools system) need to maintain a sufficient level of reserves to ensure their financial viability and to plan for future activities. This position is reinforced in both the Australian and NSW education acts.

More specifically, the need for funds to be retained for reserves includes:

- provision for long-service leave and other leave entitlements, which are generally provided for in cash within the not-for-profit sector
- amounts of income used to cover depreciation and amortisation expenses which are non-cash expenses but are nonetheless necessary to cover future capital replacement and refurbishment cost
- funds for new and expanded school facilities to meet enrolment demand from population growth and other factors
- working capital reserves, required in every organisation to ensure financial viability in the event of delays in receipt of payments, floods, fires or other risks. This is particularly important in the school education sector where only a very small proportion of expenditure is discretionary, at least within the short run annual budget cycle, as the education, care and welfare of students is paramount. Schools' expenditure, which for the NSW Catholic schools system amounts to over \$3 billion per year or \$250 million per month, is predominantly for teacher and support staff salaries and utilities, none of which can or should be curtailed at short notice due to unforeseen exigencies.

H. Financial data collections and publication by school

CSNSW provides detailed financial information to AGDESE annually for each of its schools in the form of the Financial Questionnaire, the Block Allocations under the Financial Accountability process and detailed supporting data including audited financial statements and reconciliations.

This data is then used to create the dataset reported by ACARA on the publicly accessible MySchool website and also the dataset reported on the publicly accessible website of the Australian Charities and Not-for Profits Commission (ACNC).

To meet reporting requirements for the NSW Education Standards Authority (NESA) each school in the NSW Catholic schools' system must publish an annual report on school performance, which includes financial information.