

The Auditor-General
Audit Report No.45 2008–09
Performance Audit

Funding for Non-government Schools

**Department of Education, Employment and Workplace
Relations**

Australian National Audit Office

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of Australia 2009

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Canberra ACT
24 June 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the *Department of Education, Employment and Workplace Relations* in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Funding for Non-government Schools*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name and title.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ABS	Australian Bureau of Statistics
AGSRC	Average Government School Recurrent Costs
ANAO	Australian National Audit Office
CD	ABS Census Collection District
COAG	Council of Australian Governments
DEEWR	Department of Education, Employment and Workplace Relations.
ERI	Education Resources Index
MCEETYA	Ministerial Council on Education, Employment, Training and Youth Affairs
SES	Socio-economic status

Glossary

Agreement	An arrangement negotiated between the Australian Government and education authorities setting out the terms under which Australian Government funding is provided.
Approved Authority	A person or body who the Minister determines in writing to be the Approved Authority of a school system or school, under the <i>Schools Assistance Act 2008</i> .
Average Government School Recurrent Costs	The Average Government School Recurrent Costs (AGSRC) is a measure of the national average recurrent cost of educating a child in a government school. AGSRC data is maintained by the Ministerial Council on Education, Employment, Training and Youth Affairs (MCEETYA). The AGSRC amounts and AGSRC Index are changed on an annual basis after consideration of movements in that data.
ERI funding arrangements	The Education Resources Index (ERI) was a mechanism used by the Australian Government from 1985 to 2000, to assess the appropriate level of Australian Government recurrent funding to non-government schools. It measured 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. Schools were funded on the basis of their relative need within a twelve category range.
Financial Accountability Certificate	An electronic document provided by a qualified accountant confirming that the amounts an Approved Authority received have been spent, or have been committed to be spent, for the purposes for which the funding was granted.
Financial Questionnaire	The means by which the department collects schools' financial income, expenditure and liabilities data for a calendar year.

Australian Government Funding Guarantee policy	The policy that provides that schools whose funding would decrease as a result of recalculation of their SES scores, have their previously established funding level 'guaranteed', by allowing a phased adjustment of their per capita entitlements each year until AGSRC indexation brings the value of the lower funding level up to the same level. The funding guarantee applied from 2005 (excluding Catholic systemic schools).
Australian Government Funding Maintained policy	The policy that provides that schools whose funding would decrease as a result of changing to SES funding arrangements have their previously established funding level, as a proportion of AGSRC, maintained. Funding maintenance applied to certain independent schools from 1 January 2001. These schools were maintained at their 2000 funding levels, with indexation. Certain Catholic system schools were maintained from 1 January 2005 at their 2004 funding levels, with indexation.
General Recurrent Grants Program for schools	The Australian Government's general recurrent grants assist government and non-government schools with the recurrent costs of school education. The grants are provided so that schools can offer programs directed towards the achievement of the <i>Educational Goals for Young Australians</i> .
Non-systemic school	A school that is not included in an approved school system. These schools are also referred to as Independent schools.
School census data	Data representing a 'snapshot' of the staffing and student numbers on Census Day. The information is used to calculate the annual entitlement of schools receiving Australian Government general recurrent grants.
School SES score	A measure that represents the socio-economic status of a non-government school's community relative to other non-government schools and the proportion of Average Government School Recurrent Costs the school is entitled to on a per capita basis.

SES funding arrangements	Australian Government policies that provide for the allocation of general recurrent grants to non-government schools. These arrangements include the SES funding model, Funding Maintained and Funding Guaranteed policies.
Socio-economic status funding model	A funding model that links student residential address data with Australian Bureau of Statistics (ABS) national Census data to obtain a measure of the capacity of the school community to support its school.
Specific Purpose Payments	Payments provided under section 96 of the Australian Constitution on terms decided by the Commonwealth. They are a financial contribution to areas of State and Territory responsibility which the Australian Government makes in pursuit of its policy objectives. Typically, the States and Territories must fulfil specified conditions in order to receive these payments, which cover most functional areas of State and Territory and local government activity, including education, health, social security, housing and transport.
Systemic school	A school that is included in an approved school system. Systemic schools are administered by Catholic, Anglican, Lutheran, Seventh Day Adventists and other Christian Schools education systems. Systemic schools are either Catholic systemic or Independent systemic.

Summary and Recommendations

Summary

The Australian Government's funding of schools

1. In 2008–09, the Australian Government will contribute approximately \$11 billion for a range of educational programs including for government schools, non-government schools, Indigenous education strategic initiatives, targeted programs, 'Skilling Australia's Workforce', children's services, and Australian Technical Colleges.¹ Payments for these programs are administered by the Department of Education, Employment and Workplace Relations (the department or DEEWR). The payments are in the form of specific purpose payments (discussed below) and include:

- general recurrent grants;
- capital programs;
- targeted programs; and
- Indigenous programs.

2. The Government's general recurrent grants assist government and non-government schools with the recurrent costs of school education. Specifically, general recurrent grants fund teaching and ancillary staff salaries, professional development of teachers, curriculum development, and maintenance and general operation provisions.² In receiving the grants, non-government school systems and schools agree to support the achievement of the *Educational Goals for Young Australians*.³

¹ *Budget Paper No. 3, Australia's Federal Relations 2008–09,—Part 3: Payments for Specific Purposes*, available from <http://www.budget.gov.au/2008-09/content/bp3/html/bp3_spp.htm> [accessed 28 May 2009].

² DEEWR, *Commonwealth Programs for Schools Quadrennial Administrative Guidelines 2005-2008, 2008 Update*, p. 45. Available from <http://www.dest.gov.au/sectors/school_education/programmes_funding/general_funding/operating_grants/general_recurrent_grants/default.htm> [accessed 28 May 2009].

³ On 5 December 2008, State, Territory and Commonwealth Ministers of Education, meeting as the Ministerial Council on Education, Employment, Training and Youth Affairs, announced *The Melbourne Declaration on Educational Goals for Young Australians* which sets the direction for Australian schooling for the next 10 years. The Melbourne Declaration supersedes *The Adelaide Declaration* that was announced in 1999.

Amount of funding for schools

3. Australia's Constitution gives the States and Territories regulatory and funding responsibility for government schooling. The States and Territories also provide supplementary assistance to non-government schools. The Australian Government is the primary source of public funding for non-government schools and provides supplementary assistance to government schools.⁴

4. In 2008–09, the Australian Government will contribute approximately \$2 billion in general recurrent grants to government schools. *The National Report on Schooling in Australia 2006* notes that the Australian Government provides around 10 per cent of general recurrent grants public funding for government schools in Australia. The remaining 90 per cent of recurrent grants public funding for government schools is provided by the States and Territories. Some funding also comes from private sources such as parent contributions.⁵

5. In comparison in the same year, the Australian Government will contribute approximately \$5.8 billion in general recurrent grants to non-government schools. *The National Report on Schooling in Australia 2006* notes that the Australian Government provides around 75 per cent of general recurrent grants public funding for non-government schools. The remaining 25 per cent of recurrent grants public funding for non-government schools is provided by the States and Territories.⁶ In 2006, non-government schools also received \$5.2 billion in funding from private sources (primarily parent contributions). This amount constituted 43 per cent of the total funding for non-government schools in that year.

Specific purpose payments for education

6. The Council of Australian Governments' (COAG) comprises the Australian Government and State and Territory governments. At its meeting on 29 November 2008, COAG reaffirmed its commitment to cooperative

⁴ MCEETYA, *National Report on Schooling in Australia 2006, Chapter 2*, available from <http://cms.curriculum.edu.au/anr2006/ch2_background.htm> [accessed on 7 May 2009].

⁵ *ibid.*

⁶ *ibid.*

working arrangements through a new Inter-governmental Agreement.⁷ The agreement provided the basis for a rationalisation of Australian Government specific purpose payments to the States and Territories, reducing the number of such payments from over 90 to five: healthcare, early childhood development and schools, vocational education and training, disabilities services, and affordable housing.⁸ Section 96 of the Australian Constitution provides the basis for the Australian Government to provide specific purpose payments to State and Territory governments for school level education.⁹

7. When the ANAO commenced this audit in 2008, the Australian Government funded non-government and government schools under the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*. The ANAO audited the department's administration of the 2004 Act.

8. The 2004 Act was superseded by the *Schools Assistance Act 2008* which commenced on 1 January 2009. At this time, new arrangements for 2009–12 came into effect for both non-government and government schools funding. The Australian Government funds government schools under the National Education Agreement which was negotiated with the States and Territories through COAG. The National Education Agreement includes the roles and responsibilities of the parties and performance reporting requirements.

9. Non-government schools are funded separately under the *Schools Assistance Act 2008* which specifies the funds to be provided and the Government's associated conditions for non-government schools. The *Schools Assistance Act 2008* aims to provide the same reporting requirements for non-government schools as are required for government schools.

⁷ The *Intergovernmental Agreement on Federal Financial Relations* is aimed at improving the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the States, providing them with increased flexibility in the way they deliver services to the Australian people.

⁸ *Budget Paper No. 3, Australia's Federal Relations 2008–09, —Part 3: Payments for Specific Purposes*, available from <http://www.budget.gov.au/2008-09/content/bp3/html/bp3_spp.htm> [accessed 28 May 2009].

⁹ *Commonwealth of Australia Constitution Act* (the Constitution), available from <http://www.austlii.edu.au/au/legis/cth/consol_act/coaca430/> [accessed 29 May 2009].

Structure of the non-government schools sector

10. In 2006, there were around 2600 non-government schools that educated over one million primary and secondary school students. There are three categories of non-government schools: Catholic systemic, Independent systemic (affiliated with a system other than a Catholic system), and Independent (not affiliated with a system).

11. A systemic school is a school that is included in an approved school system.¹⁰ Systemic schools are administered by Catholic, Anglican, Lutheran, Seventh Day Adventists and other Christian Schools education systems. In 2006, these schools accounted for 69 per cent of non-government schools and 64 per cent of non-government students.

12. A non-systemic school is a school that is not included in an approved school system. These schools are also referred to as Independent schools. In 2006, these schools accounted for 31 per cent of non-government schools and 36 per cent of non-government students.

Key features of the non-government schools funding arrangements

13. Since 2001, the Socio-economic status (SES) of school communities has been used as the basis for funding non-government schools. Under the SES funding arrangements, the Australian Government general recurrent grant entitlement for a non-government school is broadly determined by its SES score and the number of students enrolled at the school. A school's SES score is a measure of the socio-economic status of a non-government school's community relative to other non-government schools. The score determines the percentage of Average Government School Recurrent Costs (AGSRC) that is payable, per student, as a general recurrent grant. A feature of the SES funding arrangements has been the 'no losers' policy. Under this policy, non-government schools that would have been worse off if the department calculated their entitlement to grants based on their SES scores, have had their general recurrent grants either 'maintained' or 'guaranteed'.

¹⁰ Section 129 of the *Schools Assistance Act 2008* provides that: (1) The Minister may, by determination: (a) approve a body as an approved school system for the purposes of this Act; and (b) approve an approved school (or schools) as a member (or members) of the system for the purposes of this Act.

The funding maintained provisions

14. A major change introduced in the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*¹¹ was that all non-government schools, including Catholic systemic schools, would be covered by the SES funding arrangements, which were introduced in 2001.¹²

15. At the beginning of the 2005–08 quadrennium, SES scores were calculated for all non-government schools. The majority of Catholic systemic schools (about 61 per cent or 970 schools) received SES scores that would have led to reduced funding. All of these schools were covered by the funding maintained provisions and had their funding maintained at their 2004 level with indexation. All other non-government schools that were previously funding maintained continued to have funding maintained at their 2000 funding levels with indexation if their re-calculated SES scores would have led to reduced funding.¹³ Australian Government general recurrent grants for Catholic systemic schools continued to be paid to Catholic Education Offices, which are required to distribute these funds based on need.

The funding guarantee provisions

16. The re-calculation of SES scores for the 2005–08 quadrennium for schools other than Catholic systemic schools meant that some schools had different SES scores from the 2001–04 quadrennium. In cases where a school's SES score had decreased, it was entitled to receive increased funding in the 2005–08 quadrennium. The reverse would also have been the case (that is, a higher SES score would result in less funding). However, as mentioned earlier, the Government maintained a 'no losers' policy. It introduced new provisions that provided a 'funding guarantee' for those SES-funded schools that were entitled to less Australian Government funding in 2005–08.

17. The funding guarantee provisions that were introduced under the SES system preserved the amount of Australian Government funding that a school received. However, it is not the same as funding maintenance because there is no indexation to account for cost inflation. Under the funding guarantee,

¹¹ *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*, Part 6, Division 2.

¹² MCEETYA, *The National Report on Schooling in Australia 2006*, Chapter 2, available from <http://cms.curriculum.edu.au/anr2006/ch2_background.htm> [accessed 4 June 2009].

¹³ Indexation is based on movement in the AGSRC.

schools receive the same dollar amount (per student) each year until this is surpassed by their (indexed) entitlement under the SES funding arrangements, where upon they are funded under the SES arrangements.¹⁴

18. The 2008 Act continues the funding arrangements for general recurrent grants for non-government schools that were previously in place under the 2004 Act. Consequently, the findings and conclusions of this audit of the implementation of the 2004 Act are also relevant to the department's administration of the 2008 Act.

Audit objectives and scope

19. The audit objective was to assess the effectiveness of the department's administration of general recurrent grants for non-government schools. The audit examined key processes in the department's administration of general recurrent grants for non-government schools for 2005–08 in accordance with the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*.

20. The audit did not cover other specific purpose payments to non-government schools such as capital grants or targeted programs.

Audit criteria

21. To form its conclusion, the ANAO assessed whether the department:

- effectively manages the data used for the calculation of general recurrent grants for non-government schools (including assuring the accuracy of non-government schools enrolment numbers);
- properly approves, pays and acquits the correct amounts of general recurrent grants; and
- monitors and reports on whether the funding model is achieving its objectives.

Overall conclusion

22. General recurrent grants provide financial assistance to government and non-government schools for recurrent expenditure for the delivery of

¹⁴ Department of Education, Science and Training, *A History of State Aid to Non-Government Schools in Australia*, 2007, p. 169-170.

primary and secondary education and related purposes. A condition of funding is that non-government school systems and schools support the achievement of the *Educational Goals for Young Australians* and the COAG outcomes for schooling, and comply with certain performance reporting requirements.

23. In 2008–09, the Australian Government will pay around \$5.8 billion in general recurrent grants to non-government schools. These grants are distributed under the Socio-economic status (SES) funding arrangements which calculate schools funding based on need using the socio-economic status funding formula. The formula generates an SES score for each school. Some adjustments are made to school funding levels where schools would be worse off if funded according to their SES scores. In 2006, 53 per cent of non-government schools were funded on the basis of their SES scores. The remaining non-government schools were either funded under the funding maintained or funding guarantee provisions.

24. The department effectively administers general recurrent grants in terms of managing the accuracy of data used for the calculation of these grants, and through properly approving, paying and acquitting the grants. However, the department can improve its administration of these grants by: strengthening its program controls and quality assurance checks designed to manage the risk of errors when executing agreements; making better use of the available data to detect overpayments including fraud; and monitoring and reporting on the SES funding arrangements.

25. ANAO analysis shows that all agreements with non-government school systems for the 2005–08 quadrennium were properly executed. However, ANAO sampling revealed that around 10 per cent of agreements with non-systemic schools were not properly executed. Although the administrative impact of most of these errors may be low, for the two agreements that were not signed by the Australian Government, the department did not meet the requirements of the relevant legislation before paying the grants to schools. The department advised that the errors identified by the ANAO during the audit were addressed subsequently.

26. The department checks a sample of non-government schools' enrolment data annually. However, it makes limited use of other data sources that would assist with targeting its compliance activities. The department advised that it is consulting with the States, Territories and school system authorities on data sharing arrangements to assist in identifying potential

grants overpayments, including fraud in the program. Extending its consultation and negotiations on data sharing to include the school systems, would also improve the department's targeting of checks on the accuracy of non-government schools census data.

27. In 2006, 36 per cent of non-government schools were not part of an approved school system. These schools received general recurrent grants in line with their individual entitlement under the SES funding arrangements. The remaining 64 per cent of non-government schools were affiliated with school systems. Under the SES funding arrangements, school systems receive general recurrent grants equal to the aggregate entitlement of their affiliated schools. In 2006, systemic schools received a total of \$3.3 billion in general recurrent grants via school systems. This amount represented 69 per cent of the total amount of Australian Government's general recurrent grants for non-government schools in that year.

28. In 1999, when announcing the Australian Government's new funding arrangements, the then Minister affirmed that 'the Commonwealth expects that within systems, recurrent funds will be distributed differentially according to need'.¹⁵ This expectation is reflected in the *Commonwealth Programs for Schools—Quadrennial Administrative Guidelines, 2005-2008*, approved by the then Minister. However, the department did not have information on the funding formulae that non-government school systems use to distribute funds to their affiliated schools, including whether and how these formulae account for need. ANAO analysis found that systemic schools with low SES scores (that is, schools servicing low socio-economic communities) receive less Australian Government general recurrent grants per student from their school systems than if they were directly funded under the SES arrangements (as are non-systemic schools). To better inform program management and broader policy advice, the department should take steps to identify whether school systems distribute general recurrent grants funding in a manner consistent with the needs-based funding principles underpinning the SES funding arrangements.

29. Further, the department can improve its annual reporting of the program by including information on general recurrent grants paid to the non-government schools sector, the performance targets that were set for

¹⁵ *Choice and Equity: Funding Arrangements for non-government Schools 2001—2004*, Statement by the Honourable Dr David Kemp, Minister for Education, Training and Youth Affairs, 11 May 1999, p.6.

administering the \$5.8 billion in grants and the results achieved against these targets.

30. While reaffirming the funding model that was introduced in 1999, the current Government has announced that it is 'committed to an open, transparent review of whether the SES model is the best one to take us beyond the 2009–12 funding period'. The current Minister anticipates that the review will involve extensive consultation and conclude in 2011.¹⁶ The ANAO has made five recommendations directed at improving the department's administration and its capacity to advise and inform this review.

Key findings by chapter

Managing data accuracy (Chapter 2)

31. The provision of accurate school census data and student residential address data by non-government schools is essential for the accurate calculation of general recurrent grants funding entitlements. The provision of inaccurate data for this purpose may result in the department under or over paying non-government schools relative to their entitlements.

32. The department has taken adequate steps to provide clear guidance to non-government schools on the provision of their data. These data assist the department with the accurate calculation of general recurrent grants for these schools.

33. The department performs a number of checks to verify the accuracy of non-government schools' data received electronically. These checks provide the department with useful quality assurance mechanisms to assist in managing the risk of non-government schools providing inaccurate data for the calculation of general recurrent grants funding.

34. The department completed a risk assessment for the general recurrent grants program for non-government schools for 2005–08. However, the timeliness of such assessments could be improved, given that the assessment was not completed until the last year of the 2005–08 funding quadrennium.

¹⁶ The Hon Julia Gillard MP, 27 March, 2009, National Public Education Forum Speech, Public Education Forum, 27 March 2009, Canberra. Available from http://www.deewr.gov.au/Ministers/Gillard/Media/Speeches/Pages/Article_090327_173128.aspx > [accessed 2 June 2008].

35. Subsequent to an internal audit, the department completed a fraud risk assessment for the program focussing on fraud risks associated with the management of assets, leave and attendance, and credit card use. There would be benefit in the department extending this coverage to include general recurrent grants payments paid in the 2009–12 quadrennium.

Payment of general recurrent grants (Chapter 3)

36. In order to meet its responsibilities to pay \$5.8 billion in general recurrent grants to non-government schools, the department takes steps to verify the accuracy of schools' data, confirm its calculations, and execute agreements with schools.

37. ANAO sampling showed that all agreements with non-government school systems were properly executed, while around 90 per cent of agreements with non-systemic schools were properly executed. Although the administrative impact of most of the errors in the remaining 10 per cent may be low, in respect of the agreements that were not signed by the Australian Government (three per cent), the department did not meet the requirements of the legislation before making payments. Subsequently, the department advised that it had addressed the errors identified by the ANAO. In the light of this experience, the department would benefit from examining the effectiveness of program controls and quality assurance checks designed to manage the risk of errors when executing these agreements.

38. ANAO analysis indicated that, in 2006, the department's calculations (based on data provided by non-government schools) and payments of around \$1.6 billion in grants to non-systemic schools were accurate. Although in 2006, eight non-systemic schools (around one per cent of non-systemic schools) were paid more general recurrent grants than they were entitled, none of these overpayments was owing to errors in the department's payment processes. Instead, the overpayments were a result of a suspected fraudulent overstatement of enrolments, inadvertent overstatements of enrolments subsequently rectified by schools, and overstatements of enrolments detected later by the department. The total value of overpayments of general recurrent grants to non-systemic schools in 2006 was around \$566 000—representing 0.04 per cent of the total value of general recurrent grants payments to non-systemic schools in that year.

39. Testing of a sample of payments revealed that the department had paid grants to non-government schools consistent with the schedules in the

department's guidelines, and that these payments were properly authorised in accordance with the legislation.

40. Although the department performs a number of checks on the accuracy of census data provided by non-government schools, scope exists for the department to make more effective use of data matching to verify the accuracy of the census data. The department advised that under the 2009–12 agreements, there was greater flexibility to share with the States and Territories and non-government school peak bodies, the data collected via the census and financial questionnaire. The department considers that the sharing of enrolment data in particular will provide further assurances, and will also enable the Australian and State and Territory governments to better target their checks of the accuracy of census data. Notwithstanding, there is no requirement under the agreements for the States and Territories and non-government school peak bodies to reciprocate in terms of data sharing.

41. The department advised that it is consulting with a number of States to develop reciprocal information-sharing agreements and is seeking agreements of this nature with all States and Territories. Extending its consultation and negotiations on data sharing to include the school systems, would also improve the department's targeting of checks on the accuracy of non-government schools census data.

42. ANAO analysis confirmed that in 2006, all Approved Authorities for non-government schools that had been paid grants, had provided a Financial Accountability Certificate confirming their receipt and use of these grants.

Performance reporting and policy analysis and advice (Chapter 4)

43. The department's annual report for 2007–08 provided limited insights into its performance in administering general recurrent grants for non-government schools, including on the efficiency of its administration. The department can improve its annual reporting of the program by including information on general recurrent grants paid to the non-government schools sector, the performance targets that were set for administering the \$5.8 billion in grants and the results achieved against these targets.

44. In May 1999, the then Minister for Education, Training and Youth Affairs announced new funding arrangements for non-government schools for 2001–04. In the statement, the then Minister announced that:

These arrangements will give low income families even greater access to the schools of their choice, encourage greater private investment in education and provide higher levels of funding for the neediest school communities.¹⁷

45. An examination of publicly available documents and departmental records reveals that there is limited information available to the Parliament and to the Government on whether the purposes of the SES funding arrangements (including the funding maintained and funding guarantee provisions) and underpinning principles are being met. The department monitors and reports expenditure on non-government schools under the legislation. However, the department conducts little analysis of a range of data to assist in measuring and reporting on whether the purposes and principles of the funding arrangements are being met. Analysing such data would also assist the department to improve program performance and inform broader policy advice.

46. ANAO analysis shows that, the proportion of students attending non-government schools rises with the SES scores of communities—in 2006 around one fifth of students living in communities with low SES scores of 85 or less accessed non-government schools compared to almost two thirds of students living in communities with high SES scores of 130 or more. In 2006, the percentage of Indigenous students (for ABS Census Collection Districts with low, average and high SES scores) was less than the percentage of non-Indigenous students attending non-government schools. Extending these analyses to include the years leading up to and since the commencement of the SES funding arrangements would assist the department to better understand the impact of those arrangements on the accessibility of non-government schools.

47. The department had not analysed whether the SES funding arrangements had adversely affected private investment in non-government schools. ANAO analysis shows that the total (per student) funding in non-systemic non-government schools tends to rise with schools' SES scores—with the falls in per student general recurrent grants funding being more than offset by increased per student private funding. In contrast, there was little difference in per student private income (predominantly parent contributions) for systemic schools with SES scores greater than 100. That is, private

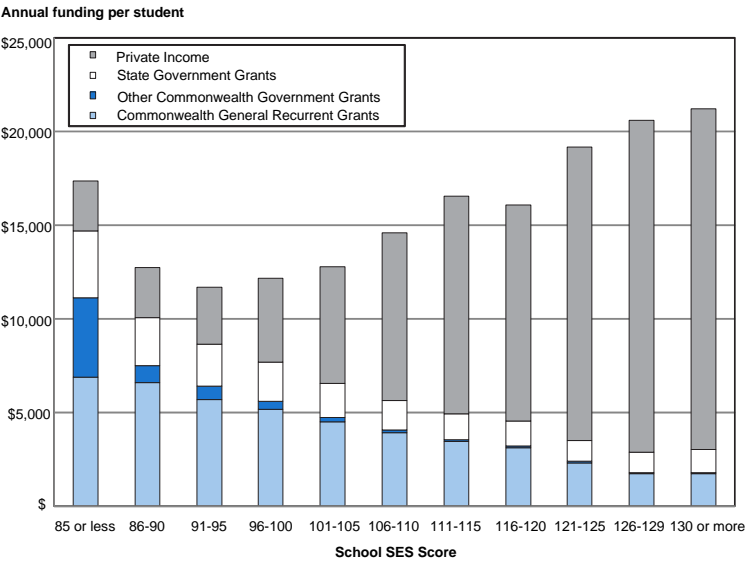
¹⁷ *Choice and Equity: Funding Arrangements for non-government Schools 2001—2004*, Statement by the Honourable Dr David Kemp, Minister for Education, Training and Youth Affairs, 11 May 1999.

investment in systemic schools did not greatly increase as SES scores increased. This could be partly related to school systems' tuition fees policies.

48. The department did not have information on the funding formulae that non-government school systems use to distribute funds to their affiliated schools, including whether and how these formulae account for need. Figure 1 (over page) shows that Australian Government general recurrent grants funding (shaded light blue) for non-systemic schools falls as the schools SES scores rise. This reflects the fact that non-systemic schools are directly funded by the Australian Government, with around three quarters of these schools being funded based on their SES score.

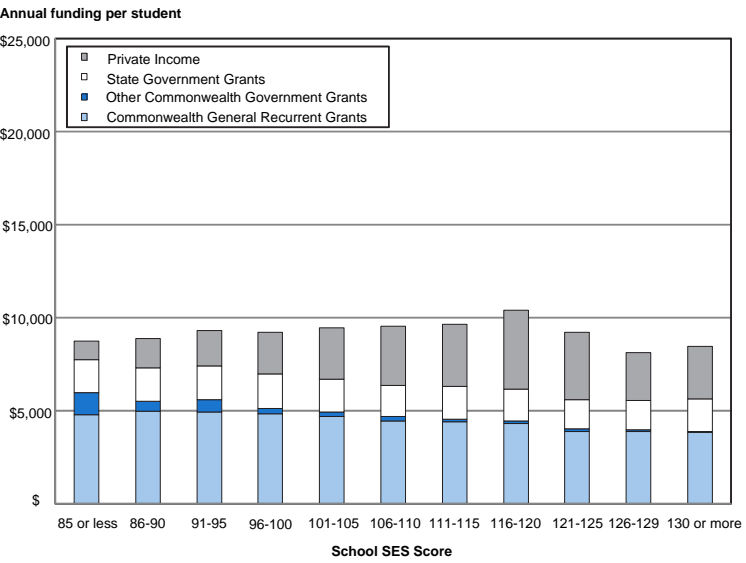
49. In contrast, Figure 2 (over page) shows that schools systems appear to give less weight to individual school SES scores when distributing Australian Government general recurrent grants to affiliated schools. As, noted above, under the program guidelines school systems are required to distribute these grants differentially according to need. By identifying the methods used by school systems to distribute general recurrent grants, the department would be better placed to assess whether school systems are distributing these grants consistent with Australian Government policy guidelines and with their contractual arrangements.

Figure 1
Non-Systemic School Funding Sources, by School SES Scores, 2006



Source: ANAO analysis of non-government schools Financial Questionnaire data.

Figure 2
Systemic School Funding Sources, by School SES Scores, 2006



Source: ANAO analysis of non-government schools Financial Questionnaire data.

Summary of agency's response

50. The Department of Education, Employment and Workplace Relations (DEEWR) appreciates the opportunity to participate in the performance audit of funding for non-government schools. DEEWR welcomes the ANAO's findings. DEEWR broadly accepts the ANAO's recommendations and is of the view that these will strengthen the processes in relation to the funding of non-government schools. DEEWR has agreed with four of the recommendations in the report and has agreed one with qualifications.

51. The department's formal response is at Appendix 1.

Recommendations

Recommendation No.1

Para 2.40

The ANAO recommends that the department review the scope of its fraud risk assessment for the program to include consideration of the risks associated with the provision of data by non-government schools for the calculation and payment of general recurrent grants.

DEEWR's response: *Agreed.*

Recommendation No.2

Para 3.13

The ANAO recommends that the department examine the effectiveness of program controls and quality assurance checks designed to reduce errors when executing agreements with non-government schools for payments of general recurrent grants.

DEEWR's response: *Agreed.*

Recommendation No.3

Para 3.28

The ANAO recommends that the department consult with non-government school systems on data sharing so as to agree on access to and use of school data to assist in improving the department's targeting of checks on the accuracy of non-government schools census data.

DEEWR's response: *Agreed.*

**Recommendation
No.4**

Para 4.29

The ANAO recommends that the department:

- include in its annual report, the amounts of general recurrent grants paid to the non-government schools sector, the performance targets that were set for administering the grants and the results achieved against these targets; and
- increase analysis of non-government schools data to assist in measuring and reporting on whether the purposes of the SES funding arrangements and underpinning principles are being met, and to better inform program management and broader policy advice.

DEEWR's response: *Agreed with qualifications.*

**Recommendation
No.5**

Para 4.45

The ANAO recommends that the department request from school systems, information on their funding formulae used to distribute general recurrent grants to their affiliated schools, to assess whether:

- distributions are made according to need within overall Australian Government policy guidelines; and
- there is any overlap with other Government programs.

DEEWR's response: *Agreed.*

Audit Findings and Conclusions

Introduction

This chapter provides background information on specific purpose payments in the form of general recurrent grants for non-government schools. It also outlines the audit objective, scope and methodology, and the structure of the report.

The Australian Government's funding of schools

1.1 In 2008–09, the Australian Government will contribute approximately \$11 billion for a range of educational programs including for government schools, non-government schools, Indigenous education strategic initiatives, targeted programs, 'Skilling Australia's Workforce', children's services, and Australian Technical Colleges.¹⁸ Payments for these programs are administered by the Department of Education, Employment and Workplace Relations (the department or DEEWR). The payments are in the form of specific purpose payments (discussed below) and include:

- general recurrent grants;
- capital programs;
- targeted programs; and
- Indigenous programs.

1.2 The Government's general recurrent grants assist government and non-government schools with the recurrent costs of school education. Specifically, general recurrent grants fund teaching and ancillary staff salaries, professional development of teachers, curriculum development, and maintenance and general operation provisions.¹⁹ In receiving the grants, non-

¹⁸ *Budget Paper No. 3, Australia's Federal Relations 2008–09,—Part 3: Payments for Specific Purposes*, available from <http://www.budget.gov.au/2008-09/content/bp3/html/bp3_spp.htm> [accessed 28 May 2009].

¹⁹ Department of Education, Employment and Workplace Relations, *Commonwealth Programs for Schools Quadrennial Administrative Guidelines 2005-2008, 2008 Update*, p. 45. Available from <http://www.dest.gov.au/sectors/school_education/programmes_funding/general_funding/operating_grants/general_recurrent_grants/default.htm> [accessed 28 May 2009].

government school systems and schools agree to support the achievement of the *Educational Goals for Young Australians*.²⁰

1.3 The goals were developed by Education Ministers in collaboration with the Catholic and Independent school sectors, following public consultation on the draft declaration. The agreed goals are:

- Goal 1: Australian schooling promotes equity and excellence; and
- Goal 2: All young Australians become:
 - successful learners;
 - confident and creative individuals; and
 - active and informed citizens.

Amount of funding for schools

1.4 Australia's Constitution gives the States and Territories regulatory and funding responsibility for government schooling. The States and Territories also provide supplementary assistance to non-government schools. The Australian Government is the primary source of public funding for non-government schools and provides supplementary assistance to government schools.²¹

1.5 In 2008–09, the Australian Government will contribute approximately \$2 billion in general recurrent grants to government schools. *The National Report on Schooling in Australia 2006* notes that the Australian Government provides around 10 per cent of general recurrent grants public funding for government schools in Australia. The remaining 90 per cent of recurrent grants public funding for government schools is provided by the States and Territories. Some funding also comes from private sources such as parent contributions.²²

²⁰ On 5 December 2008, State, Territory and Commonwealth Ministers of Education, meeting as the Ministerial Council on Education, Employment, Training and Youth Affairs, announced *The Melbourne Declaration on Educational Goals for Young Australians* which sets the direction for Australian schooling for the next 10 years. The Melbourne Declaration supersedes *The Adelaide Declaration* that was announced in 1999.

²¹ MCEETYA, *National Report on Schooling in Australia 2006, Chapter 2*, <http://cms.curriculum.edu.au/anr2006/ch2_background.htm> [accessed 4 June 2009].

²² *ibid.*

1.6 In comparison in the same year, the Australian Government will contribute approximately \$5.8 billion in general recurrent grants to non-government schools. *The National Report on Schooling in Australia 2006* notes that the Australian Government provides around 75 per cent of general recurrent grants public funding for non-government schools. The remaining 25 per cent of recurrent grants public funding for non-government schools is provided by the States and Territories.²³ In 2006, non-government schools also received \$5.2 billion in funding from private sources (primarily parent contributions). This amount constituted 43 per cent of the total funding for non-government schools in that year.

Other sources of funding for non-government schools

1.7 Non-government schools receive funding from the Australian Government, State and Territory governments and private sources. Figure 1.1 shows the total amount of non-government schools income in 2006²⁴ from:

- Australian Government general recurrent grants to schools;
- Other Australian Government grants comprising: short-term emergency assistance; establishment grants; distance education grants; English as a Second Language program payments; Literacy, Numeracy and Special Learning Needs program payments; other student outcome payments; country areas program payments; Language Other Than English program payments; national Asian languages and studies payments; Indigenous education payments; and other Australian Government recurrent and capital grants;
- State and Territory Government grants comprising: recurrent grants; interest subsidies; education allowances; and capital grants²⁵; and
- Private income comprising: fees and charges paid by parents (including excursion fees, capital fees and levies, ABSTUDY payments²⁶, endowed fees, and overseas recurrent receipts and capital funds); and other

²³ *ibid.*

²⁴ The ANAO used 2006 data as these were the most recent data available.

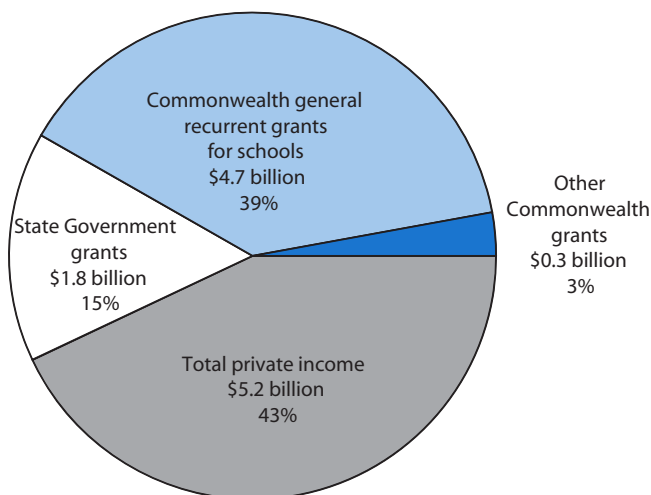
²⁵ These amounts do not include State and Territory subsidies such as transport subsidies.

²⁶ The Department of Education, Employment and Workplace Relations externally reports ABSTUDY as private Income for schools.

private donations and income (including recurrent income from other bodies, other private income, other capital income and net profit).²⁷

Figure 1.1

Non-government School Funding Sources, 2006



Source: ANAO analysis of non-government schools Financial Questionnaire data.

Specific purpose payments for education

1.8 The Council of Australian Governments' (COAG) comprises the Australian Government and State and Territory governments. At its meeting on 29 November 2008, COAG reaffirmed its commitment to cooperative working arrangements through a new Inter-governmental Agreement.²⁸ The agreement provided the basis for a rationalisation of Australian Government specific purpose payments to the States and Territories, reducing the number of such payments from over 90 to five: healthcare, early childhood development and schools, vocational education and training, disabilities

²⁷ These categories are consistent with the funding categories publicly reported by the Department of Education, Employment and Workplace Relations.

²⁸ The *Intergovernmental Agreement on Federal Financial Relations* is aimed at improving the quality and effectiveness of government services by reducing Commonwealth prescriptions on service delivery by the States, providing them with increased flexibility in the way they deliver services to the Australian people.

services, and affordable housing.²⁹ Section 96 of the Australian Constitution provides the basis for the Australian Government to provide specific purpose payments to State and Territory governments for school level education.³⁰

1.9 When the ANAO commenced this audit in 2008, the Australian Government funded non-government and government schools under the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*. The ANAO audited the department's administration of the 2004 Act.

1.10 The 2004 Act was superseded by the *Schools Assistance Act 2008* which commenced on 1 January 2009. At this time, new arrangements for 2009–12 came into effect for both non-government and government schools funding. The Australian Government funds government schools under the National Education Agreement which was negotiated with the States and Territories through COAG. The National Education Agreement includes the roles and responsibilities of the parties and performance reporting requirements.

1.11 Non-government schools are funded separately under the *Schools Assistance Act 2008* which specifies the funds to be provided and the Government's associated conditions for non-government schools. The *Schools Assistance Act 2008* aims to provide the same reporting requirements for non-government schools as are required for government schools. The 2008 Act continues the funding arrangements for non-government schools that were previously in place under the 2004 Act. Consequently, the findings and conclusions of this audit of the implementation of the 2004 Act, are also relevant to the department's administration of the 2008 Act.

Structure of the non-government schools sector

1.12 In 2006, there were around 2600 non-government schools that educated over one million primary and secondary school students. There are three categories of non-government schools: Catholic systemic, Independent systemic (affiliated with a system other than a Catholic system), and Independent (not affiliated with a system).

²⁹ *Budget Paper No. 3, Australia's Federal Relations 2008–09,—Part 3: Payments for Specific Purposes*, available from <http://www.budget.gov.au/2008-09/content/bp3/html/bp3_spp.htm> [accessed 4 June 2009].

³⁰ *Commonwealth of Australia Constitution Act* (the Constitution), available from <http://www.austlii.edu.au/au/legis/cth/consol_act/coaca430/> [accessed 4 June 2009].

1.13 A systemic school is a school that is included in an approved school system.³¹ Systemic schools are administered by Catholic, Anglican, Lutheran, Seventh Day Adventists and other Christian Schools education systems. In 2006, these schools accounted for 69 per cent of non-government schools and 64 per cent of non-government students.

1.14 A non-systemic school is a school that is not included in an approved school system. These schools are also referred to as Independent schools. In 2006, these schools accounted for 31 per cent of non-government schools and 36 per cent of non-government students.

Table 1.1

Numbers of systemic and non-systemic schools and students in 2006

Type of school	Number of schools		Number of students	
	Number	Percentage	Number	Percentage
Systemic	1 793	68.8	674 765	63.6
Non-systemic	812	31.2	386 205	36.4
Total	2 605	100	1 060 970	100

Source: ANAO analysis of Department of Education, Employment and Workplace Relations data.

Note: The ANAO analysis includes those schools for which the ANAO had both Financial Questionnaire data (which underpinned the ANAO analysis of school funding sources) and Financial Accountability Certificate data (which underpinned the ANAO analysis of GRG payment accuracy). For consistency, the schools included in Table 1.1 provide the basis for the analysis presented in this report. However, some of the institutions excluded (such as Special Schools) will cause minor differences between ANAO statistics and those variously published by the department. Another potential source of difference is the treatment of subsidiary campuses and whether student enrolments are presented in Full Time Equivalent terms or not.

1.15 There has been steady growth in both the number of non-government schools and students attending these schools over the past five decades. Appendix 2 compares the growth in the number of government and non-government schools and the numbers of students attending these schools.

Key features of the non-government schools funding arrangements

1.16 Since 2001, the Socio-economic status (SES) of school communities has been used as the basis for funding non-government schools. Under the SES

³¹ Section 129 of the *Schools Assistance Act 2008* provides that: (1) The Minister may, by determination: (a) approve a body as an approved school system for the purposes of this Act; and (b) approve an approved school (or schools) as a member (or members) of the system for the purposes of this Act.

funding arrangements, the Australian Government general recurrent grant entitlement for a non-government school is broadly determined by its SES score and the number of students enrolled at the school. A school's SES score is a measure of the socio-economic status of a non-government school's community relative to other non-government schools. The score determines the percentage of Average Government School Recurrent Costs (AGSRC) that is payable, per student, as a general recurrent grant. A feature of the SES funding arrangements has been the 'no losers' policy. Under this policy, non-government schools that would have been worse off if the department calculated their entitlement to grants based on their SES scores, have had their general recurrent grants either 'maintained' or 'guaranteed'.

The funding maintained provisions

1.17 A major change introduced in the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*³² was that all non-government schools, including Catholic systemic schools, would be covered by the SES funding arrangements, which were introduced in 2001.³³

1.18 At the beginning of the 2005–08 quadrennium, SES scores were calculated for all non-government schools. The majority of Catholic systemic schools (about 61 per cent or 970 schools) received SES scores that would have led to reduced funding. All of these schools were covered by the funding maintained provisions and had their funding maintained at their 2004 level with indexation. All other non-government schools that were previously funding maintained continued to have funding maintained at their 2000 funding levels with indexation if their re-calculated SES scores would have led to reduced funding.³⁴ Australian Government general recurrent grants for Catholic systemic schools continued to be paid to Catholic Education Offices, which are required to distribute these funds based on need.

The funding guarantee provisions

1.19 The re-calculation of SES scores for the 2005–08 quadrennium for schools other than Catholic systemic schools meant that some schools had

³² *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*, Part 6, Division 2.

³³ *National Report on Schooling in Australia 2006, Chapter 2*, Available from <http://cms.curriculum.edu.au/anr2006/ch2_background.htm> [accessed 4 June 2009].

³⁴ Indexation is based on movement in the AGSRC.

different SES scores from the 2001–04 quadrennium. In cases where a school's SES score had decreased, it was entitled to receive increased funding in the 2005–08 quadrennium. The reverse would also have been the case (that is, a higher SES score would result in less funding). However, as mentioned earlier, the Government maintained a 'no losers' policy. It introduced new provisions that provided a 'funding guarantee' for those SES-funded schools that were entitled to less Australian Government funding in 2005–08.

1.20 The funding guarantee provisions that were introduced under the SES system preserved the amount of Australian Government funding that a school received. However, it is not the same as funding maintenance because there is no indexation to account for cost inflation. Under the funding guarantee, schools receive the same dollar amount (per student) each year until this is surpassed by their (indexed) entitlement under the SES funding arrangements, where upon they are funded under the SES arrangements.³⁵

Funding status of non-government schools

1.21 Table 1.2 shows that in 2006:

- less than half (44 per cent) of systemic schools received general recurrent grants funding based on their SES scores. The majority (56 per cent) of systemic schools were funded under the funding maintained provisions. Two schools were funded under the funding guarantee provisions; and
- almost three-quarters (74 per cent) of non-systemic schools were funded based on their SES scores, with 20 per cent funded under the funding maintained provisions and six per cent funded under the funding guarantee provisions.

³⁵ Department of Education, Science and Training, *A History of State Aid to Non-Government Schools in Australia*, 2007, p. 169-170.

Table 1.2**Non-government schools by funding status, 2006**

Funding Arrangements	Systemic Schools		Non-systemic Schools		All Non-government Schools	
	# of schools	%	# of schools	%	# of schools	%
SES	783	44	597	74	1 380	53
Funding Maintained	1 008	56	164	20	1 172	45
Funding Guarantee	2	0	51	6	53	2
Total	1 793	100	812	100	2 605	100

Source: ANAO analysis of Department of Education, Employment and Workplace Relations data.

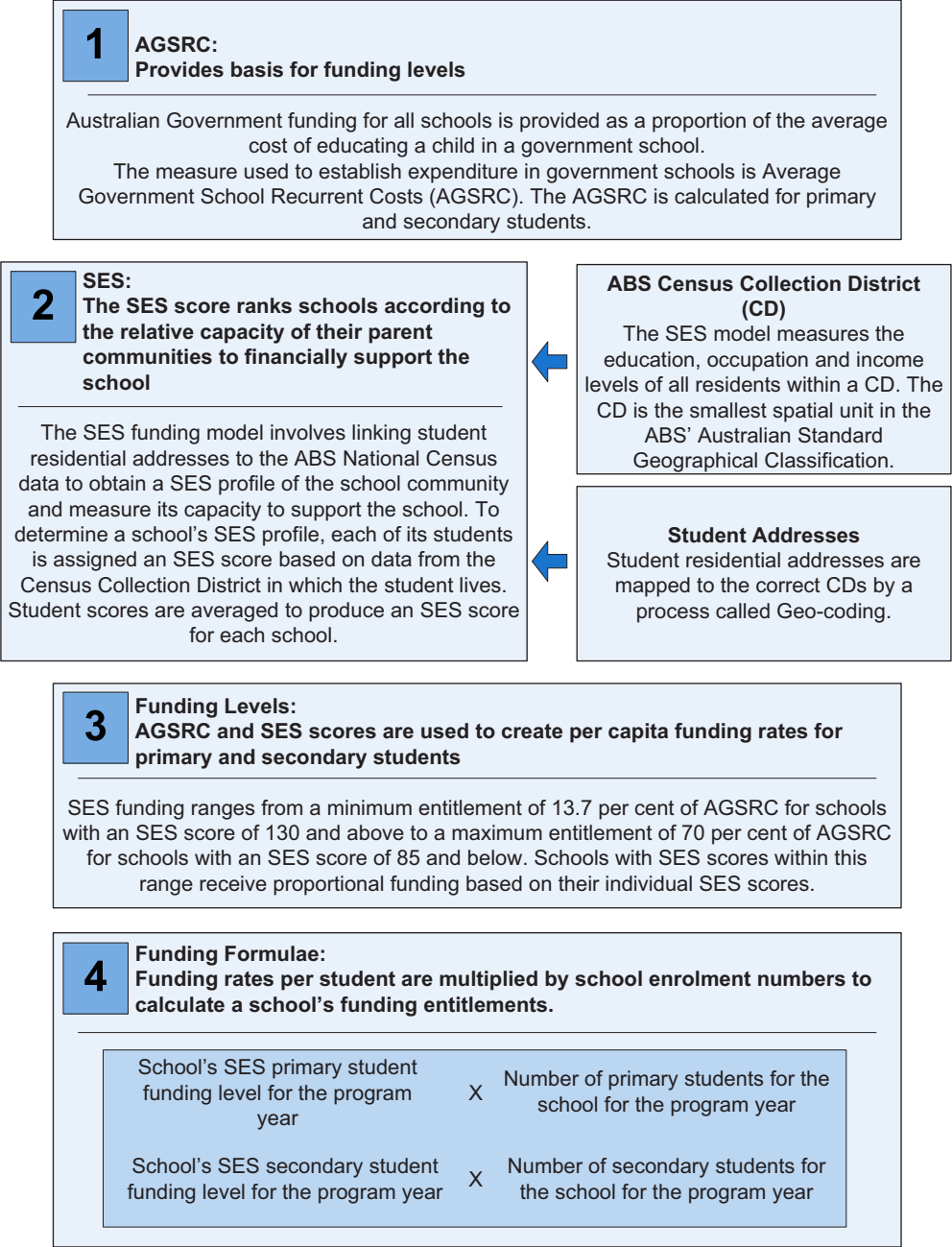
1.22 Appendix 3 shows the distribution of Australian Government, State and private funding across systemic and non-systemic schools by funding status for 2006.

Calculation of general recurrent grants for non-government schools

1.23 Since 2001 (and 2005 for Catholic systemic schools) the socio-economic status (SES) of school communities has been used as the basis of funding. Figure 1.2 illustrates the methodology for calculating general recurrent grants funding for non-government schools under the SES funding arrangements.

Figure 1.2

SES calculation for non-government schools



Source: ANAO analysis of *Commonwealth Programs for Schools – Quadrennial Administrative Guidelines, 2005-2008, 2008 update*.

Distribution of non-government school SES scores

1.24 Figure 1.3 depicts the general recurrent grant entitlement schedule specified in the 2004 Act³⁶ under which:

- non-government schools with SES scores of 85 or less (i.e. schools servicing communities with very low socio-economic status) receive the maximum per student general recurrent grant entitlement of 70 per cent of AGSRC—a general recurrent grant entitlement in 2006 of \$5052 per primary student and \$6524 per secondary student; and
- non-government schools with SES scores of 130 or more (schools servicing communities with very high socio-economic status) receive the minimum per student general recurrent grant entitlement of 13.2 per cent of AGSRC—a general recurrent grant entitlement in 2006 of \$989 per primary student and \$1277 per secondary student.

1.25 Figure 1.4 shows the distribution of non-government school SES scores in 2006.³⁷ In 2006:

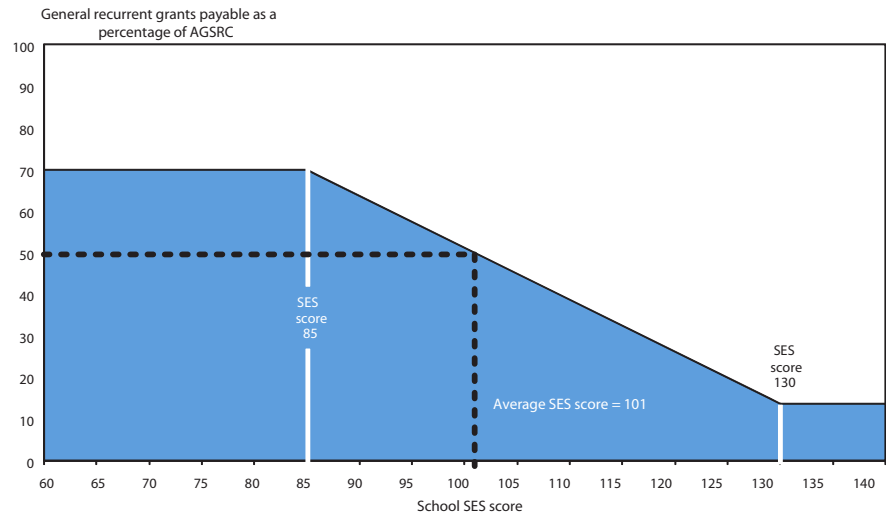
- 88 (3.4 per cent) non-government schools had SES scores of 85 or below and therefore were entitled to the maximum general recurrent grant payment rate—all of these low-SES schools were funded based on their SES scores;
- the average SES score was 101 and, under the SES funding arrangements schedule (Figure 1.3), schools with an SES score of 101 were entitled to general recurrent grants equal to 50 per cent of the AGSRC; and
- six schools (0.2 per cent) had SES scores of 130 or more—however, five of these high-SES schools were funded under the funding maintained provisions.

³⁶ *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*, Schedule 4—General Recurrent Grants for Non-government Schools.

³⁷ Figure 1.4 excludes non-government special schools that are automatically assigned the maximum general recurrent grants payment rate of 70 per cent of AGSRC. A special school is 'a school that has been, or is likely to be, recognised by the State Minister as a special school and provides special education'.

Figure 1.3

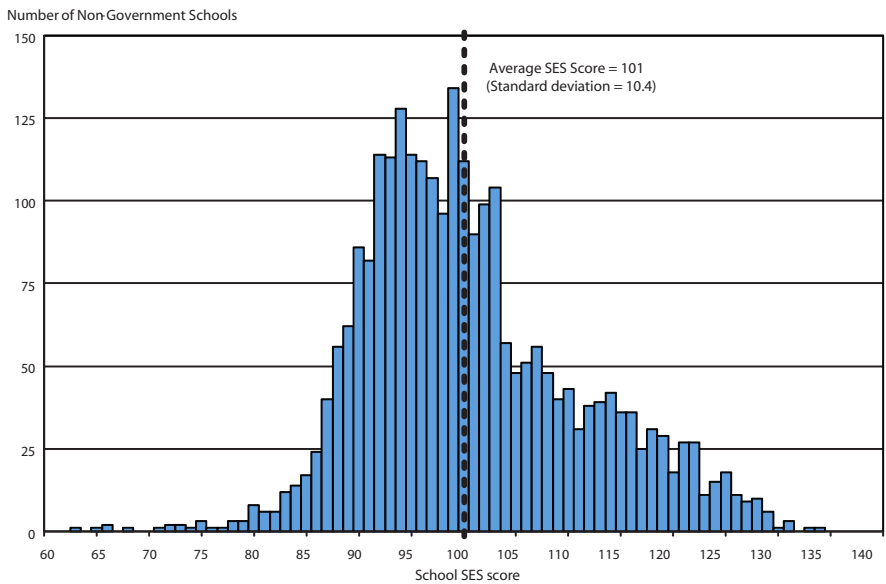
Per student general recurrent grants entitlement under the SES funding arrangements



Source: The Department of Education, Employment and Workplace Relations.

Figure 1.4

Distribution of non-government school SES scores, 2006



Source: ANAO analysis Department of Education, Employment and Workplace Relations non-government school SES score data.

General recurrent grants payments schedule

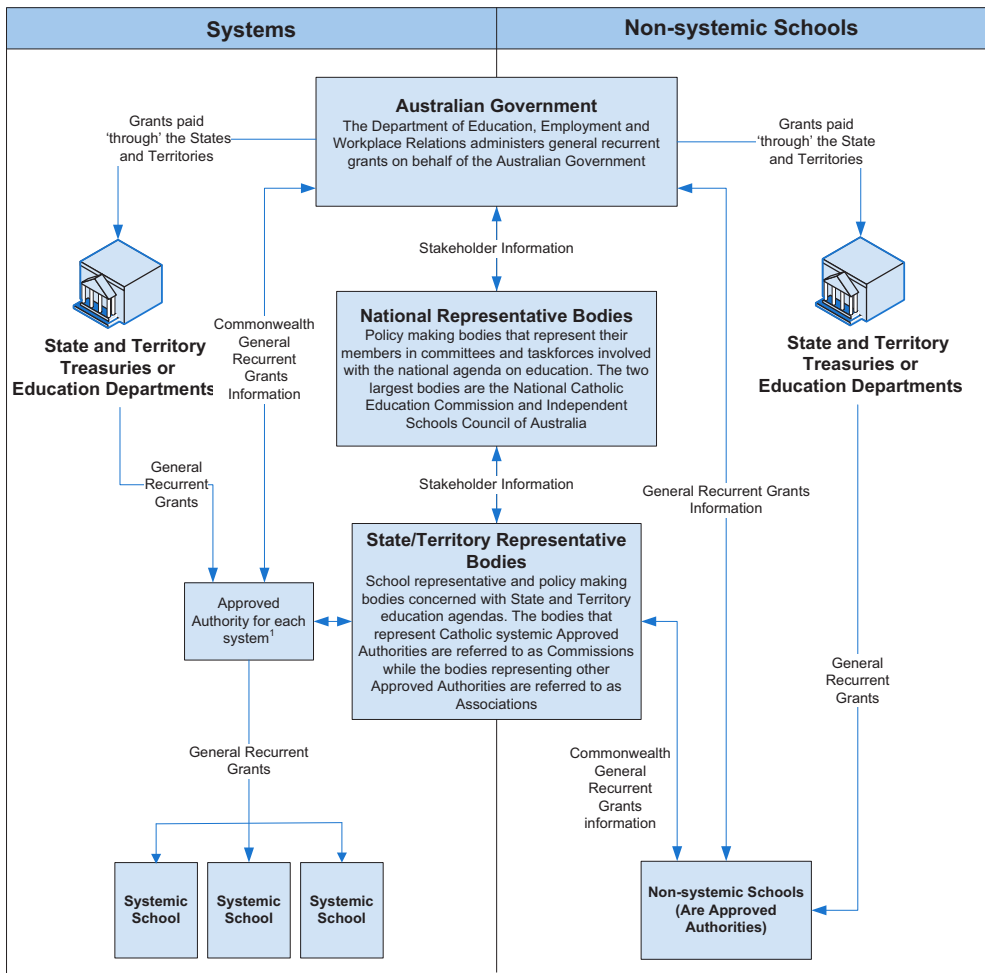
1.26 The department pays general recurrent grants according to a schedule approved by the Minister for each program year. Payments are made in January (50 per cent of estimated annual entitlement based on the previous year's census³⁸ and previous year's funding rates) and July (up to 75 per cent of estimated annual entitlement based on the previous year's census and previous year's funding rates) with an adjustment in October (up to 100 per cent of actual entitlement based on the current year's census and current year's funding rates).³⁹

1.27 Figure 1.5 shows the flow of general recurrent grants funding from the Australian Government, through the States and Territories, to non-government schools, and information flows between them.

³⁸ For non-government schools with approval for funding, general recurrent grants are calculated on the numbers of students receiving education on schools census day or such other day as the Minister in special circumstances determines.

³⁹ Program grants are supplemented annually in respect of movements in average government school recurrent costs.

Figure 1.5
Flow of general recurrent grants funding and information



Source: ANAO based on information provided by the Department of Education, Employment and Workplace Relations.

Note: 1 Some State/Territory representative bodies are also Approved Authorities.

Audit objective

1.28 The audit objective was to assess the effectiveness of the department’s administration of general recurrent grants for non-government schools. To form its conclusion, the ANAO assessed whether the department:

- effectively manages the data used for the calculation of general recurrent grants for non-government schools (including assuring the accuracy of non-government schools enrolment numbers);
- properly approves, pays and acquits the correct amounts of general recurrent grants; and
- monitors and reports on whether the funding model is achieving its objectives.

Audit scope

1.29 The audit did not cover other specific purpose payments to non-government schools such as capital grants or targeted programs.

1.30 Prior to the audit, the department advised that, where applicable, the recommendations in Audit Report No. 45 of 2007–08 *Specific Purpose Payments: General Recurrent Grants for Government Schools* (described below) will also be implemented for non-government schools. The ANAO took the department's advice into account when planning this audit.

Previous related ANAO audits

1.31 As mentioned earlier, the ANAO has previously conducted an audit of general recurrent grants for government schools. This audit complements that previous 2008 audit.

1.32 ANAO Audit Report No. 45 2007–08, *Specific Purpose Payments: General Recurrent Grants for Government Schools*⁴⁰ made three recommendations focussing on:

- the department consulting with the States and Territories on the completeness and accuracy of information in their certificates of compliance with the Australian Government's requirements, and the level of assurance provided by these certificates⁴¹;

⁴⁰ Available from <<http://www.anao.gov.au>> [accessed 4 June 2009].

⁴¹ In most cases, the States and Territories reported that they were compliant with the 'commitments', 'educational accountabilities' and 'further conditions' of the agreements. However, at the time of the audit, no State or Territory had complied with all of the 'commitments', 'educational accountabilities' and 'further conditions' of the agreements monitored by compliance certificates in 2006. Consequently, under the agreements some jurisdictions had not fully met key obligations designed to achieve the national goals. At the time of the 2007–08 audit, the department had not followed up on these reported instances of non-compliance.

- the department consulting with the States and Territories about reporting publicly on their achievements in meeting their obligations under the agreements⁴²; and
- in developing agreements for 2009–12, the department consulting with the States and Territories on:
 - the use of intermediate outcomes and performance targets to measure progress towards the national goals for schooling; and
 - publicly reporting on performance variability across the schooling system, as well as areas in which performance can improve.⁴³

1.33 The department agreed with all three recommendations.

Audit Methodology

1.34 For this audit of non-government school funding, the ANAO conducted fieldwork at the department's National Office in Canberra. This included:

- examining Cabinet documents, policy documents, agreements, guidelines, procedures and operational documents;
- assessing a sample of payment records and agreements for compliance with the *Financial Management and Accountability Act and Regulations 1997* and the department's guidelines;
- interviewing departmental staff;
- reviewing files, records and publications; and
- analysing non-government schools data.

1.35 The ANAO also consulted with the Independent Schools Council of Australia, the National Education Commission New South Wales, the Board of Studies New South Wales and the Audit Office of New South Wales.

⁴² The 2008 audit found that there was only limited public reporting on the achievements of the States and Territories in meeting their obligations under the agreements to assist in understanding progress towards the national goals.

⁴³ The 2008 audit found that performance information in the *National Report on Schooling in Australia* cast little light on performance variability across the schooling system, as well as areas in which performance can improve.

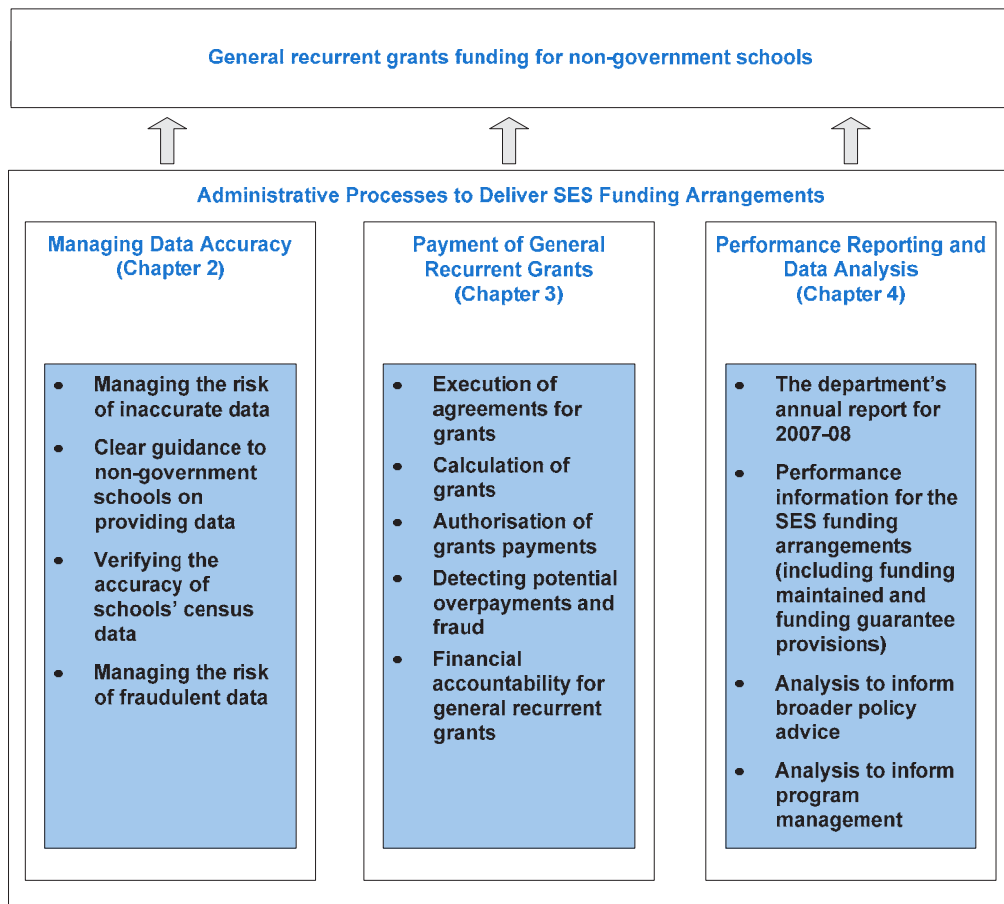
1.36 The ANAO contracted Allanson Consulting Pty Ltd to assist with statistical analysis for the audit. The audit was conducted in accordance with the ANAO's Auditing Standards at a cost of \$345 000.

Report structure

1.37 The remaining three chapters of the report reflect key aspects of the funding framework governing the payment of general recurrent grants to non-government schools. Figure 1.6 illustrates the structure of the report in more detail.

Figure 1.6

Report structure



Source: ANAO

2. Managing Data Accuracy

This chapter examines the department's management of the accuracy of its school census and student residential address data. The department requires accurate data to correctly calculate its general recurrent grants for non-government schools.

Introduction

2.1 In order to calculate non-government schools general recurrent grants funding entitlements, the department collects data from a range of sources including:

- Average Government School Recurrent Costs (provided by the Ministerial Council on Education, Employment, Training and Youth Affairs);
- Census Collection District data on education, occupation and income categories (provided by the Australian Bureau of Statistics, ABS);
- school census data (provided by non-government schools); and
- student residential address data (provided by non-government schools).

2.2 This chapter focuses on the measures taken by the department to verify the accuracy of schools' census data and student residential address data, in order to assist with the accurate calculation of grants for non-government schools.

2.3 The department calculates general recurrent funding for non-government schools on a per student basis determined by the number of eligible students enrolled in these schools on the schools census date.

2.4 The department also uses the schools census data to calculate each school's annual grant entitlement for:

- Indigenous students funded under the Indigenous Education Strategic Initiatives program; and
- students with disabilities receiving funding under the Literacy, Numeracy and Special Learning Needs program.

2.5 Schools census data forms part of the National Schools Statistics Collection, which is the official statistical description of schooling in Australia.

2.6 General recurrent grants funding is payable on condition that the Approved Authority⁴⁴ will provide to the department the census information requested by the due date. The information to be provided includes the number of full-time students and the number of full-time equivalent part-time students.⁴⁵

2.7 Student residential addresses are used to calculate SES scores for non-government schools. Each student residential address is geocoded by matching the address with an ABS Census Collection District.

2.8 The provision of accurate school census data and student residential address data by non-government schools is essential for the accurate calculation of general recurrent grants funding entitlements. The provision of inaccurate data for this purpose may result in the Australian Government under or over paying non-government schools relative to their entitlement.

2.9 The ANAO examined whether the department:

- manages the risk of inaccurate data being provided by non-government schools;
- has taken steps to provide clear guidance to non-government schools on the provision of data;
- takes steps to verify the accuracy of data provided by non-government schools; and
- manages the risk of fraudulent data being provided by non-government schools.

Managing the risk of inaccurate data

2.10 The 2005–08 funding quadrennium commenced on 1 January 2005. However, the department did not complete a risk assessment of its non-government schools funding until January 2008, which was the last year of the funding cycle.

⁴⁴ The body the Minister determines in writing to be the approved authority of a school system, school, centre or organisation (in relation to a particular program).

⁴⁵ The annual census date is the first Friday in August for all States and Territories. The return date for the Statutory Declaration covering the census data is one week after the census date. Schools are required to submit the census data via the Internet using the 'Census on the Internet' application.

2.11 In that month, the department identified the following risks to the accuracy of data provided by non-government schools:

- 'that the data collection processes, underlying the payments to the States and non-government schools, do not provide reliable data in a timely manner';
- 'that incorrect census data or SES data leads to incorrect funding levels being calculated...such as by schools inaccurately entering student address data into the SES website or overseas full-fee paying students into the census on the Internet';⁴⁶
- 'that the successful contractors for the Financial Questionnaire Verification exercise and the Census Post-enumeration exercise lack relevant skills and experience, or a full understanding of departmental procedures and appropriate documentation which results in inaccurate and incorrect outcomes for these exercises'⁴⁷; and
- 'that the sampling methodology for the selection of schools participating in the Financial Questionnaire Verification and the Census Post-enumeration exercises is not adequate to provide the desired outcomes for these processes'.

2.12 For each of these risks, the department identified and rated current risk controls, considered the likelihood of these risks occurring, the consequences of these risks occurring, rated these risks and specified whether they were acceptable or unacceptable (taking into account existing controls). The department considered that all risks identified were acceptable given existing risk controls. Notwithstanding, the usefulness of the risk assessment, it did not include a fraud risk assessment for general recurrent grants payments (although some of the risks mentioned in paragraph 2.11 were relevant to fraud control).⁴⁸

⁴⁶ This referred to schools making inadvertent errors rather than fraud.

⁴⁷ The Financial Questionnaire Verification exercise and the Census Post-enumeration exercise are discussed later in this chapter.

⁴⁸ The department's Risk Management Manual identifies that each Group, Branch and State Manager is responsible for identifying programs and functions that require risk assessments. Further, it is expected that a risk assessment be undertaken for each program/function/corporate activity managed by the department. The department's major risk assessment process occurs annually between October and December.

2.13 During the audit, the department advised that it would review the effectiveness of the risk controls identified in its January 2008 risk assessment. Further, the department advised that the review would reflect the 2009–12 compliance regime and emerging risks, and it would take into account any ANAO findings.

Clear guidance to non-government schools on providing data

2.14 The ANAO examined whether the department has taken steps to provide non-government schools with clear guidance on the provision of data to assist with the accurate calculation of general recurrent grants for these schools. Without clear guidance, the data provided by non-government schools may be inaccurate resulting in incorrect funding entitlements being calculated and paid.

2.15 The department has provided guidance to non-government schools to assist with the collection of accurate data for the calculation and payment of general recurrent grants. In particular, for the 2005–08 quadrennium the department:

- issued the '*Commonwealth Programs for Schools Quadrennial Administrative Guidelines 2005–2008*⁴⁹ describing the requirements for the provision of census data, including the timing and process for submitting data;
- issued an 'SES Student Address Collection—School User Manual' giving guidance on the provision of student residential addresses (but not their names) to the department;
- wrote to non-government schools advising of the arrangements for each upcoming census, Financial Questionnaire and Financial Accountability Certificate;
- provided on-line help and operated a Helpline to assist schools with the provision of census data; and

⁴⁹ Department of Education, Employment and Workplace Relations, *Commonwealth Programs for Schools Quadrennial Administrative Guidelines 2005–2008, 2008 Update*. Available from <http://www.dest.gov.au/sectors/school_education/programmes_funding/general_funding/operating_grants/general_recurrent_grants/default.htm#non-government_schools> [accessed 4 June 2009].

- provided information sessions nationally to aid non-government schools in providing accurate data to the department.

2.16 The department advised that non-government schools have the opportunity to comment on the usefulness of the guidance that the department provided through the census data collection and the Helpline. Additionally, as part of the Census Post-enumeration exercise (discussed later), schools are invited to comment on the census process. The department advised that schools' responses are considered and incorporated into future censuses and address collections.

2.17 The department has taken adequate steps to provide clear guidance to non-government schools on their provision of data. Guidance was through a variety of media which is accessible before, during and after data collections.

Verifying the accuracy of schools' census data

2.18 The department advises non-government schools that they must satisfy themselves that their data are accurate before submitting their census returns. The department also advises schools that once school or system authorities have certified data as accurate and final (and once the department pays schools their grants), school authorities can amend their data only in exceptional circumstances, and then only after the provision of independent evidence.⁵⁰

2.19 The department seeks to verify the accuracy of non-government schools' data received electronically by:

- performing edit and accuracy checks of census data at the time of data entry;
- conducting a Census Post-enumeration exercise each year;
- performing edit checks of student residential address data at the time of data entry and by matching this data with student census data; and
- trialling a census head count for 2008.

2.20 The department also collects financial information annually from non-government schools through the Financial Questionnaire and Financial Accountability Certificate. An important reason for the Questionnaires and

⁵⁰ *ibid.*

Certificates are their usefulness for schools to confirm that they received Government's grants and applied the grants correctly.

2.21 A qualified accountant must submit the Financial Accountability Certificate and affirm that he or she examined the financial records of the school or Approved Authority of the school, and that the school or Approved Authority spent or committed government funding for the purpose or purposes for which the Government provided financial assistance. Chapter 3 discusses these matters in more detail.

2.22 The department uses the data from the Financial Questionnaires to develop policy advice and to provide statistical information for national education publications, reports and national bodies including for example, the Australian Bureau of Statistics and the International Organisation for Economic Cooperation and Development. However, these data are not used to calculate non-government schools general recurrent grants funding entitlements. Consequently, this chapter focuses on the measures taken by the department to verify the accuracy of the student census and student address data (see paragraph 2.19).

Edit and accuracy checks of student census data

2.23 The department performs a series of edit and accuracy checks at the time non-government schools enter the census data. For example, the department's Internet application system alerts staff if school data are outside an expected range. The department also reviews census data for inconsistencies once the data entry process has been completed.

Census Post-enumeration exercise

2.24 The department conducts the Census Post-enumeration exercise each year at the conclusion of the schools census. The exercise is based on a sample of non-government schools and encompasses checks on staff and student data provided by these schools in their annual returns.

2.25 The purposes of the exercise are to:

- encourage non-government schools to exercise care in completing the census;
- verify the accuracy of schools data;
- discourage fraudulent reporting; and
- improve the census form and data gathering processes.

2.26 The department conducts its data checks on a random sample of systemic and non-systemic schools, and has advised that it is increasing its sample size from 80 in 2007 to 100 schools in 2008.

2.27 The Census Post-enumeration checks in 2007 found that most schools accurately reported student numbers. Of the 80 schools checked, 28 schools (35 per cent) required minor amendments to full-time and part-time student numbers. Overall, census student numbers for the 80 schools were reduced by 43.3 students.⁵¹

2.28 A departmental minute reporting on the 2007 Census Post-enumeration exercise noted:

For those schools where changes were required to student numbers, the Schools Grants and Data Section was notified of the details and requested to take the appropriate action to adjust the schools' payments. In those cases where the contractors found under reporting of students the Schools Grants and Data Section was requested to make an additional payment to each school involved. Where a school had over reported student numbers the Schools Grants and Data Section was requested to seek a refund from the school or to offset the amount of the overpayment against future entitlements.

2.29 The Census Post-enumeration exercise provides the department with a useful quality assurance mechanism to assist in managing the risk of non-government schools providing inaccurate census data for the calculation of general recurrent grants funding.

2.30 The department advised that it will be implementing a financial health assessment framework for non-government schools under the *Schools Assistance Act 2008*, as a means of safeguarding the quality of education for students, protecting the Australian Government's investment and ensuring value for money. This process involves analysis of a school's expenditure and revenue to measure the financial performance and financial viability of the school. Assessments are to be based on a number of financial indicators and industry benchmarks.

⁵¹ The census checks affected general recurrent grants funding as follows: - two schools had increases in primary numbers totalling 5.0 students; 10 schools had decreases in primary numbers totalling 17.0 students; one school had an increase in secondary numbers totalling 0.6 students; 10 schools had decreases in secondary numbers totalling 25.9 students; and five schools experienced a decrease in primary and secondary student numbers totalling 6.0 students. An estimate of the funding decrease for the 43.3 students was between \$53 000 and \$273 000.

Student residential address data checks

2.31 The SES funding formula calculates higher amounts of general recurrent grants funding for non-government schools with students residing in lower socio-economic areas. Consequently, it is important for the department to confirm the accuracy of students' residential address data provided by non-government schools to assist in the correct calculation of general recurrent grants funding.

2.32 The department provides guidance to non-government schools on the provision of student address data in its 'SES Student Address Collection—School User Manual'. The manual includes guidance on among other things, formatting and field specifications for student addresses. The department advised that edit checks are performed on all addresses collected through the SES website. However, the department was unable to provide details of the nature of these checks as they were not documented. Without such information it is difficult for the department to assess the effectiveness of its controls.

2.33 Statutory declarations are required from each school declaring that all addresses submitted by each school are true and accurate. The department geocodes a minimum of 95 per cent of student residential addresses. The department advised that addresses that cannot be geocoded and are required to meet the 95 per cent minimum are followed up with the school. The department checks the numbers of addresses provided by non-government schools against the most recent school census. Any variations of more than five per cent are followed up with the schools.

Census head count

2.34 In 2008, the department trialled a count of student numbers by departmental officers. Departmental officers visited 80 non-government schools and counted the number of students in attendance on or as near as possible to the census day of 1st August. The department noted that there were impracticalities with undertaking a head count given that the schools selected had to be within a certain enrolment size and location.

Secondary schools with streamed classes⁵² and multi-campus schools⁵³ could not be part of the head count. Additionally, schools are busy locations with students away at school camps, various excursions, assemblies and numerous extracurricular activities.⁵⁴

2.35 Subsequent to the audit, the department advised that, owing to the practical problems of its staff visiting schools to count student numbers, it would rely in future on its other means to confirm data accuracy and to strengthen fraud control. The department advised that these means included sharing information with the States and Territories and comparing Australian Government census data against data collected by the States and Territories. Chapter 3 discusses the benefits of data matching in improving data accuracy, detecting potential overpayments and fraud, and in lowering administrative costs.

Managing the risk of fraudulent data

2.36 As mentioned earlier, there was no fraud risk assessment for the 2005–08 quadrennium. Commenting on the absence of a fraud risk assessment, an internal audit reported that:

The incidence of fraud in the program is likely to be low, however, areas such as the collusion between individuals in organisations to inappropriately claim funding; the use of funds for non-approved purposes; and submission of false reports (including ‘padding’ of student numbers at census), claims or statements, as well as various forms of artificially inflated costing arrangements, are areas of fraud risk.

⁵² Streaming means placing students into performance levels based upon academic ability.

⁵³ A multi-campus school operates on at least two separate sites with separate location addresses. The head campus governs subsidiary campuses at a multi-campus school. A separate census must be completed for each campus.

⁵⁴ Internal reporting notes limitations on the reliability of the census head count as follows: ‘While the Department undertook a head-count of school students, it is clear that the number of students in attendance at a school site on a particular day is not a reliable method of undertaking a census and will not correlate with the number of students eligible to receive funding. For example: overseas students and pre-school students may be head-counted, but they are not generally entitled to funding; distance education students are entitled to funding, but do not attend school; a student may be entitled to funding if they have attended school within the four weeks leading up to census, but not on the census day (where they claim special circumstances); and a student may be in attendance but only entitled to funding on a part-time basis as they are undertaking less than a full-time workload’.

2.37 The internal audit recommended that a comprehensive fraud risk assessment be performed for the general recurrent grants program for non-government schools.

2.38 In 2007 and 2008 the media reported two instances of non-government schools being investigated concerning the possible fraud of approximately \$4 million in general recurrent grants funding. At the time of the ANAO's audit, these two cases were being prosecuted in court and a brief for a third case was being prepared. These cases involved inflated enrolment numbers.

2.39 Subsequent to the internal audit mentioned above, the department completed a fraud risk assessment for the program focussing on fraud risks associated with the management of assets, leave and attendance, and credit card use. However, there would be benefit in the department extending this coverage to include general recurrent grants payments paid in the 2009–12 quadrennium. Monitoring and reporting on the effectiveness of risk controls will assist in identifying any improvements needed to better manage fraud risks in the program.

Recommendation No.1

2.40 The ANAO recommends that the department review the scope of its fraud risk assessment for the program to include consideration of the risks associated with the provision of data by non-government schools for the calculation and payment of general recurrent grants.

DEEWR's response

2.41 DEEWR agrees with this recommendation.

2.42 The Department currently has comprehensive risk management strategies for non-government schools funding programs. The Department has commenced a review of its risk assessment to better reflect both the management of potential fraud and the new compliance regime for the 2009-2012 quadrennium.

2.43 The Department also undertakes to update this risk assessment every second year to ensure it remains contemporary and reflects any emerging risks.

Conclusion

2.44 The department has established arrangements to gain assurance on the accuracy of data provided by non-government schools for the calculation of general recurrent grants. Recognising this work, the ANAO considers that there is benefit in the department improving the timeliness of its risk assessments for the general recurrent grants program, and in better controlling potential fraud by extending its fraud risk assessment to include general recurrent grants payments paid in the 2009–12 quadrennium. Monitoring and reporting on the effectiveness of risk controls will assist in identifying any improvements needed to better manage fraud risks in the program.

3. Payment of General Recurrent Grants

This chapter examines the department's payment of general recurrent grants through the States and Territories to non-government schools.

Introduction

3.1 As described in Chapter 1, in 2008–09 the Australian Government will pay around \$5.8 billion in general recurrent grants to non-government schools. The *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004* and the subsequent Australian Government agreements provided for, and specified the terms and conditions for, the payment of these grants for the 2005–08 quadrennium.

3.2 The ANAO examined whether the department:

- properly executed agreements with non-government schools before making general recurrent grants payments to these schools;
- correctly calculated grants for non-government schools based on the data collected from the schools;
- properly authorised grants payments to non-government schools;
- used the available data to detect potential overpayments of grants and fraud; and
- monitored the proper use of grants by non-government schools.

Execution of agreements for grants

3.3 Section 30 (1) of the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004* provides that:

The Minister must not authorise a payment to a State under this Act for a non-government body unless the relevant authority of the non-government body has made an agreement with the Commonwealth...

3.4 The department's internal audit of general recurrent grants in September 2007 tested a sample of agreements and found that:

...funding agreements were generally negotiated, approved and executed in accordance with legislative and guideline requirements. However, audit

sample testing (of 53 schools) in the non-government schools element revealed issues of a compliance nature.⁵⁵

3.5 The department's program area responded to the internal audit reporting that by February 2008 'All current agreements (over 750) were examined by the team to identify inconsistencies. Legal advice was sought on the various scenarios and the programme area is responding as per the recommendations.'

3.6 The legal advice provided from within the department to the program area included that, for agreements not signed by the funding recipient, the department should:

Send a letter to the relevant funding recipient requiring execution immediately and no further payments can be made under the agreements until the executed agreement is returned to DEEWR.

3.7 For agreements that were not witnessed, the legal advice was that 'witnessing is a risk management tool rather than a legal requirement'.

ANAO analysis of agreements

3.8 Of the 910 agreements between the Australian Government and non-government schools, the ANAO examined all 26 non-government school systems' agreements and a random sample of 65 non-systemic schools' agreements to assess whether these agreements were correctly executed. In particular, the audit team examined whether the agreements were:

- signed by a properly delegated Australian Government signatory⁵⁶ and witnessed;
- signed by an Approved Authority for a systemic school or a non-systemic school, and witnessed;
- correctly dated; and
- retained (in original form) on a departmental file.

⁵⁵ These were one case where the agreement was not signed or witnessed by DEST; one case where funding agreements were signed as 'systemic' but some schools were gazetted as 'non-systemic'; one case where a faxed copy of the funding agreement (rather than the original) was on file; one case where the agreement was not witnessed by a DEST representative; and four cases where the funding agreements were not dated.

⁵⁶ Under s137 of the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*.

3.9 From the ANAO sample, Table 3.1 shows that:

- all agreements with non-government school systems for the 2005–08 quadrennium were properly executed; and
- around 90 per cent of agreements with non-systemic schools were properly executed. The most common error was that agreements were not dated (eight per cent).⁵⁷ Two agreements were not signed by the Australian Government (three per cent).⁵⁸

3.10 Additionally, for the agreements in the ANAO sample that were signed by an Australian Government officer, these officers were properly delegated.

Table 3.1

Non-government school agreement execution errors

Type of execution error	Funding Agreements with School Systems	Funding Agreements with non-systemic schools
Correctly executed	26 (100%)	58 (89%)
Not signed by Australian Government signatory	0 (0%)	2 (3%)
Not witnessed for the Australian Government	0 (0%)	2 (3%)
Not signed by Approved Authority witness in correct place	0 (0%)	2 (3%)
Not dated ¹	0 (0%)	5 (8%)
At least one of the above agreement execution errors made ²	0 (0%)	7 (11%)

Source: ANAO analysis of departmental agreements for non-government schools.

Note:

1. There was more than one error in some agreements.
2. The department advised that the absence of a date and the absence of witness signatures, while execution errors, will satisfy the requirements of an agreement under the Act. Nevertheless, without a date, it is difficult for administrators to establish when the agreement was made and payments could commence.

⁵⁷ The department advised that although these items are requirements for the correct execution of a funding agreement, the agreements will not be invalidated where they have either not been witnessed or dated.

⁵⁸ As this proportion estimate is based on an audit sample of 65 funding agreements, it is subject to statistical error. The 95 per cent confidence interval for the proportion of non-systemic funding agreements that were properly executed is 79 to 95 per cent.

3.11 Although the administrative impact of most of these errors may be low, for the two agreements that were not signed by the Australian Government, the department did not meet the requirements of the relevant legislation before paying the grants to schools. The department advised that the errors identified by the ANAO during the audit were addressed subsequently.

3.12 In the light of this experience, the department would benefit from examining the effectiveness of program controls and quality assurance checks designed to manage the risk of errors when executing these agreements.

Recommendation No.2

3.13 The ANAO recommends that the department examine the effectiveness of program controls and quality assurance checks designed to reduce errors when executing agreements with non-government schools for payments of general recurrent grants.

DEEWR's response

3.14 DEEWR agrees with this recommendation and notes the ANAO concluded all agreements with non-government schools systems for the 2005-08 quadrennium were properly executed.

3.15 The Department further notes ANAO concludes the impact of the minor error rate in the execution of agreements with non-systemic schools may be low. The Department has re-examined and verified the legality of all of the 2005-2008 funding agreements and those agreements signed for the 2009-2012 quadrennium.

3.16 The Department will examine the effectiveness of program controls and quality assurance checks associated with the execution of agreements with non-government schools for payments of general recurrent grants.

Calculation of grants

3.17 The ANAO analysed whether the department correctly calculated and paid general recurrent grants to non-government schools for 2006 based on the data provided by these schools. Specifically, for each non-government school that received general recurrent grants in 2006, the ANAO:

- extracted the number of primary and secondary students (full-time equivalent) from the Census data provided to the department by non-government schools;

- established the SES Primary and Secondary payment rates for each school based on their SES scores and the SES Payment Rate Schedule for 2006;
- calculated the funding that each school was entitled to under the SES arrangements⁵⁹; and
- compared the calculated funding entitlement amounts with the grants reported by schools in their Financial Questionnaires.

3.18 As mentioned earlier, school systems, and not the department, are responsible for the distribution of Australian Government general recurrent grants between affiliated schools differentially according to need within overall Australian Government policy guidelines. Consequently, the ANAO analysis in Table 3.2 does not include systemic schools.

3.19 The analysis indicates that the department's calculations and payments (as reported in non-government schools' Financial Questionnaires) of general recurrent grants are accurate. Although eight non-systemic schools (around one per cent of non-systemic schools) were paid more than they were entitled⁶⁰, none of these overpayments was owing to errors in the department's payment processes. Instead, these overpayments were a result of:

- a suspected fraudulent overstatement of enrolments (one case involving an annual overpayment of around \$412 000);
- inadvertent overstatements of enrolments subsequently rectified by schools (two cases, with a total annual overpayment of around \$78 000); and
- overstatements of enrolments detected by the department's Census Post-enumeration exercise (five cases, with a total annual overpayment of around \$75 000).

⁵⁹ Funding entitlement = (No. of Primary Students x SES Primary student Payment Rate) + (No. of Secondary Students x SES Secondary student Payment Rate).

⁶⁰ For some schools, calculating general recurrent grants entitlement requires adjustments to reflect: recouping overpayments from previous years; subsequent successful appeals of SES scores; schools opening/closing part-way through the year and some revisions to enrolment numbers. In each of these instances, the department correctly adjusted the 2006 general recurrent grants entitlement.

Table 3.2**Reasons for overpayments of grants to non-systemic schools in 2006**

	Number of cases	Amount of overpayment	Percentage of total amount of overpayments
Overstatement of enrolments (suspected fraud)	1	\$412 394	73
Overstatement of enrolments (inadvertent, rectified by school)	2	\$77 940	14
Overstatement of enrolments (detected by Census Post-enumeration exercise)	5	\$75 221	13
Total	8	\$565 555	100

Source: ANAO analysis of Financial Accountability Certificate data and Financial Questionnaire data.

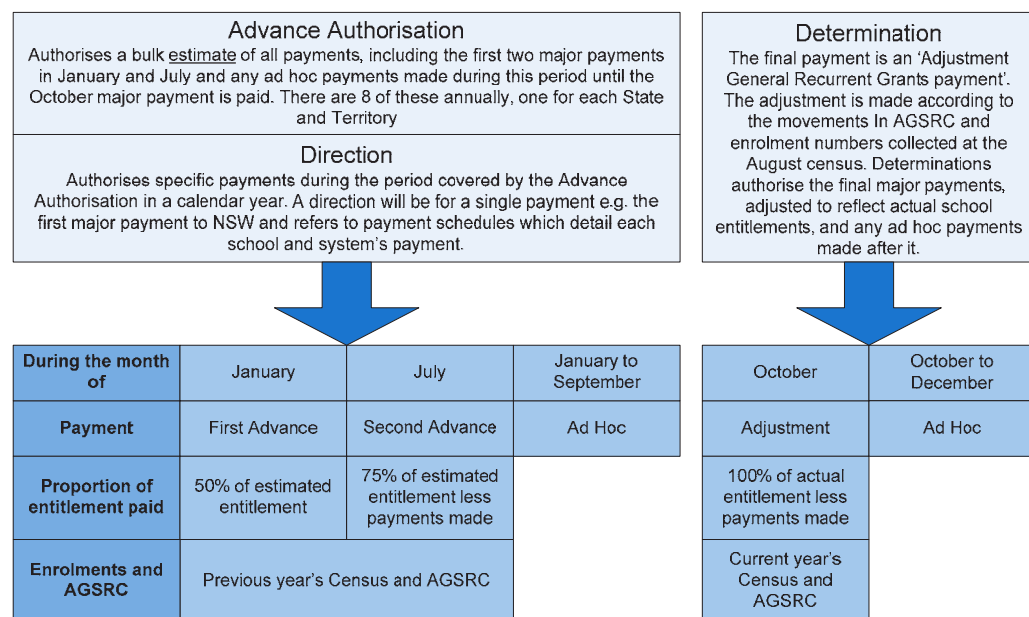
3.20 The total value of overpayments of general recurrent grants to non-systemic schools in 2006 was around \$566 000—representing 0.04 per cent of the total value of general recurrent grants payments to non-systemic schools in that year.

Authorisation of grants payments

3.21 The legislation⁶¹ provided that the Minister may fix amounts and times of payment of financial assistance, make advances of payments, and make determinations authorising payments to the States and Territories. Figure 3.1 shows the approval process for the payment of general recurrent grants to non-government schools.⁶²

⁶¹ Sections 128, 129 and 130 of the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*.

⁶² *Commonwealth Programs for Schools—Quadrennial Administrative Guidelines, 2005-2008, 2008 update*.

Figure 3.1**Approval of general recurrent grants payments**

Source: ANAO from departmental information.

3.22 The ANAO examined a sample of grants payments to non-government schools to establish whether the department acted in a manner consistent with the legislation for the approval of those payments. Specifically, the ANAO examined all grants payments for non-government schools in the Australian Capital Territory for 2008 and the first payment for New South Wales for 2008. The ANAO verified that for the sample, the department had made payments consistent with the schedule shown in Figure 3.1, and that the payments were properly authorised, consistent with the legislation.

Detecting potential overpayments and fraud

3.23 Data matching can be an effective business tool offering considerable benefits in improving data accuracy, detecting potential overpayments and fraud, and in lowering administrative costs.

3.24 Although the department performs a number of checks on the accuracy of census data provided by non-government schools, scope exists for the department to make more effective use of data matching to verify the accuracy of the census data. For example, collecting school census data for non-government schools from the States and Territories would allow for comparison with the census data collected by the department. It would also

assist the department to better focus its compliance activities including its Census Post-enumeration exercise described in Chapter 2. Data matching can also be useful for targeting the education needs of non-government schools and systems by highlighting particular schools or systems that are not meeting their obligations to provide accurate data.

3.25 The department advised that under the 2009–12 agreements, there was greater flexibility to share with the States and Territories and non-government school peak bodies, the data collected via the census and financial questionnaire. The department considers that the sharing of enrolment data in particular will provide further assurances, and will also enable the Australian and State and Territory governments to better target their checks of the accuracy of census data.

3.26 Although the agreements for 2009–12 include greater flexibility for the department to share data with third parties, there is no provision for the States and Territories to reciprocate. The department advised that:

The department is consulting with a number of states to develop reciprocal information-sharing agreements. It is hoped that, in time, agreements of this nature will be in place with all states and territories.

3.27 Extending its consultation and negotiations on data sharing to include the school systems, would also improve the department's targeting of checks on the accuracy of non-government schools census data.

Recommendation No.3

3.28 The ANAO recommends that the department consult with non-government school systems on data sharing so as to agree on access to and use of school data to assist in improving the department's targeting of checks on the accuracy of non-government schools census data.

DEEWR's response

3.29 DEEWR agrees with this recommendation.

3.30 The Department undertakes to consult commencing by the last quarter of 2009 with non-government school system authorities and non-systemic school representative bodies on the proposed inter-governmental sharing of information and will consult with non-government school system authorities on their census data verification processes.

Financial accountability for general recurrent grants

3.31 For the 2005–08 quadrennium, Approved Authorities for non-government schools were required to submit electronically to the department by 30 June each year, a Financial Accountability certificate in the name of an authorised person.⁶³ The certificate affirmed the school or system's receipt and use of the Australian Government's grants.

3.32 Schools were required to provide certificates completed by either:

- a registered company auditor in a State or Territory;⁶⁴ or
- a member of the Institute of Chartered Accountants in Australia; or
- a member of CPA Australia; or
- a member of the National Institute of Accountants; or
- a person approved by the Minister.⁶⁵

3.33 The department advised that, on a random basis, it phoned the professional associations to confirm that persons completing the certificates had the relevant qualifications. However, the department was unable to provide evidence of these checks. The department also advised that in 2009, procedures were being amended to include better recording of these checks.

3.34 ANAO analysis confirmed that in 2006 all Approved Authorities for non-government schools that had been paid grants had provided a Financial Accountability Certificate confirming their receipt and use of these grants.

Conclusion

3.35 In 2006, the department effectively administered general recurrent grants for non-government schools in terms of verifying the accuracy of data used for the calculation of these grants, and through properly approving, paying and acquitting the correct amounts of these grants.

⁶³ Section 35 of the *Schools Assistance (Learning Together—Achievement Through Choice and Opportunity) Act 2004*.

⁶⁴ Part 9.2 of the *Corporations Act 2001*.

⁶⁵ In completing the Financial Accountability Certificate, the accountant was to declare that 'on the basis that the financial records of the Approved Authority of the school have been examined, the opinion is formed that the amounts equal to the amount or sum of the amounts of financial assistance provided and paid for that year has been spent (or committed to be spent) in respect of that year for the purpose or purposes for which the assistance was granted'.

3.36 However, the department can better administer the program by improving controls and quality assurance checks for executing agreements with all non-government schools before making payments. The department can also make better use of the available data to assist in identifying potential grants overpayments, including fraud in the program. Extending its consultation and negotiations on data sharing to include the school systems, would also improve the department's targeting of checks on the accuracy of non-government schools census data.

4. Performance Reporting and Data Analysis

This chapter examines the department's performance reporting and data analysis to inform broader policy advice and program management for the program.

Introduction

4.1 In May 1999, the then Minister for Education, Training and Youth Affairs announced new funding arrangements for non-government schools for 2001–04. In the statement, the then Minister announced that:

These arrangements will give low income families even greater access to the schools of their choice, encourage greater private investment in education and provide higher levels of funding for the neediest school communities.⁶⁶

4.2 The key principles underpinning the then Government's policy for Australian Government funding of non-government schools were that:

- the funding approach should be transparent and simple;
- private investment in education should not be discouraged; schools should be able to raise private income without penalty;
- schools should have the flexibility to adjust their operations to cater for their communities;
- all non-government school students are entitled to a base level of public funding; and
- the existing link between non-government school funding and Average Government School Recurrent Costs (AGSRC) should be maintained as a benchmark.⁶⁷

4.3 These principles have been the basis of policies by successive Governments, and were recently extended for the 2009–12 funding quadrennium. While reaffirming the funding model that an earlier Minister introduced in 1999, the current Government has announced that it is 'committed to an open, transparent review of whether the SES model is the

⁶⁶ *Choice and Equity: Funding Arrangements for non-government Schools 2001—2004*, Statement by the Honourable Dr David Kemp, Minister for Education, Training and Youth Affairs, 11 May 1999, p.1.

⁶⁷ *ibid.* p.3.

best one to take us beyond the 2009–12 funding period'. The current Minister anticipates that the review will involve extensive consultation and conclude in 2011, providing the basis for possible reform ahead of 2013.⁶⁸

4.4 In light of the stability of the funding model since 1999, the ANAO examined:

- performance information on the department's administration of general recurrent grants for non-government schools in its annual report for 2007–08;
- performance information to the Parliament and to the Government, on whether the purposes of the SES funding arrangements (including the funding maintained and funding guarantee provisions) and underpinning principles were being met; and
- the department's use of data analysis to support program management and to inform broader policy advice.

The department's annual report for 2007–08

4.5 The Department of Prime Minister and Cabinet's *Requirements for Annual Reports For Departments* include that:

The primary purpose of annual reports of departments is accountability, in particular to the Parliament. Annual reports serve to inform the Parliament (through the responsible Minister), other stakeholders, educational and research institutions, the media and the general public about the performance of departments in relation to services provided. Annual reports are a key reference document and a document for internal management. They form part of the historical record.⁶⁹

4.6 An examination of the department's annual report for 2007–08 provides limited insights into its performance in administering general recurrent grants for non-government schools, including on the efficiency of its administration. For example, although the department reported that around \$7.2 billion in

⁶⁸ The Hon Julia Gillard MP, 27 March, 2009, National Public Education Forum Speech, Public Education Forum, 27 March 2009, Canberra, available from http://www.deewr.gov.au/Ministers/Gillard/Media/Speeches/Pages/Article_090327_173128.aspx [accessed 4 June 2009].

⁶⁹ Department of Prime Minister and Cabinet, *Requirements for Annual Reports For Departments, Executive Agencies and FMA Act Bodies*, Approved by the Joint Committee of Public Accounts and Audit under sub-sections 63 (2) and 70 (2) of the Public Service Act 1999, p. 2. Available from <http://www.pmc.gov.au> [accessed 4 June 2009].

general recurrent grants was paid to schools, the amounts paid to the government and non-government school sectors were not specified.

4.7 The department’s annual report included performance indicators for its quality assurance of its role in non-government school financing, affirming that it met its targets as shown in Table 4.1. However, the department did not specify the performance targets set for administering the \$5.8 billion in general recurrent grants for non-government schools. This information would assist interested parties in understanding the department’s performance.

Table 4.1
Departmental reporting against performance measures for general recurrent grants for non-government schools in 2007–08

Performance indicator	Result
‘Payments are made in accordance with approved timelines.’	‘All programs made payments in accordance with administrative targets set by quality assurance processes.’
‘Payments made are based on calculations which are accurate and in accordance with approved guidelines.’	‘Payments made by all programs were accurate and met relevant administrative targets.’

Source: Department of Education, Employment and Workplace Relations, *Annual Report 2007-08*, p. 68.

4.8 The department has also not specified targets against these same performance indicators in its Portfolio Budget Statements for 2008–09. By specifying targets, the department would provide a basis for comparison against actual performance.

4.9 The guidelines for the preparation of portfolio budget statements and annual reports set out minimum requirements and do not constrain the presentation of information to Parliament where it materially assists the understanding of program performance. In this light, the department can improve its annual reporting of the program by including information on the amount of general recurrent grants paid to non-government schools, and the administrative targets set for the processing of general recurrent grants for non-government schools.

Performance information for the SES funding arrangements (including funding maintained and funding guarantee provisions)

4.10 The department reports publicly on the number of full-time equivalent students funded (in government and non-government schools) and general

recurrent grants expenditure for schools.⁷⁰ Additionally, the *Annual National Report on Schooling 2006* includes information on the amount of general recurrent grants distributed to non-government schools by State and Territory and per capita funding from all sources for Catholic and Independent Schools.

4.11 However, the information is too highly aggregated to assist users to understand whether the purposes of the SES funding arrangements and underpinning principles described by the then Minister in 1999, are being met. Similarly, an examination of publicly available documents and departmental records reveals that there is also limited information available to the Parliament and to the Government on achievement of the SES funding arrangements purposes and principles.

4.12 The department advised that ‘there is no legislative requirement for the Department to report to the Parliament on the ‘objectives’ of the SES funding arrangements’. The department also advised that ‘the objectives of SES funding are the same as the objectives for recurrent funding. The SES is simply a distributive mechanism for recurrent funding’.

4.13 However, the then Minister’s statement in 1999 announcing the Australian Government’s new funding arrangements clearly identified the purposes of the new funding arrangements and the principles underpinning these arrangements. For example, the statement includes that ‘the Commonwealth expects that within systems, recurrent funds will be distributed differentially according to need’.⁷¹ This expectation is reflected in the *Commonwealth Programs for Schools—Quadrennial Administrative Guidelines, 2005–2008*, approved by the Minister. The department’s monitoring of school systems allocation of general recurrent grants to affiliated schools is discussed later in this chapter.

Analysis to inform broader policy advice

4.14 The department advised that it ‘conducts significant analysis of school expenditure data in consideration of broader policy development and risk management’. However, an examination of the supporting analyses provided by the department for broader policy development revealed that most were

⁷⁰ Department of Education, Employment and Workplace Relations, *Annual Report 2007–08*, pp. 46–47.

⁷¹ *Choice and Equity: Funding Arrangements for non-government Schools 2001–2004*, Statement by the Honourable Dr David Kemp, Minister for Education, Training and Youth Affairs, 11 May 1999, p. 6.

not current and provided limited information on whether the purposes of the SES funding arrangements and underpinning principles are being met.⁷² Overall, the department conducted little analysis on a range of available data to assist in improving program performance and to inform broader policy advice.

4.15 Chapter 2 described the data available to the department from a range of sources relevant to non-government schools. To assist in understanding whether the purposes of the SES funding arrangements and underpinning principles are being met, the ANAO analysed financial data for 2006 from those sources (the latest data available from the department at the time of the audit) on whether:

- lower socio-economic communities accessed private education;
- the SES formula adversely affected private investment in non-government schools; and
- the neediest school communities were receiving higher levels of funding.

Lower socio-economic communities access to private education

4.16 In 2006, of the 2 266 914 primary and secondary students in Australia, 1 120 142 (33.1 per cent) attended non-government schools.

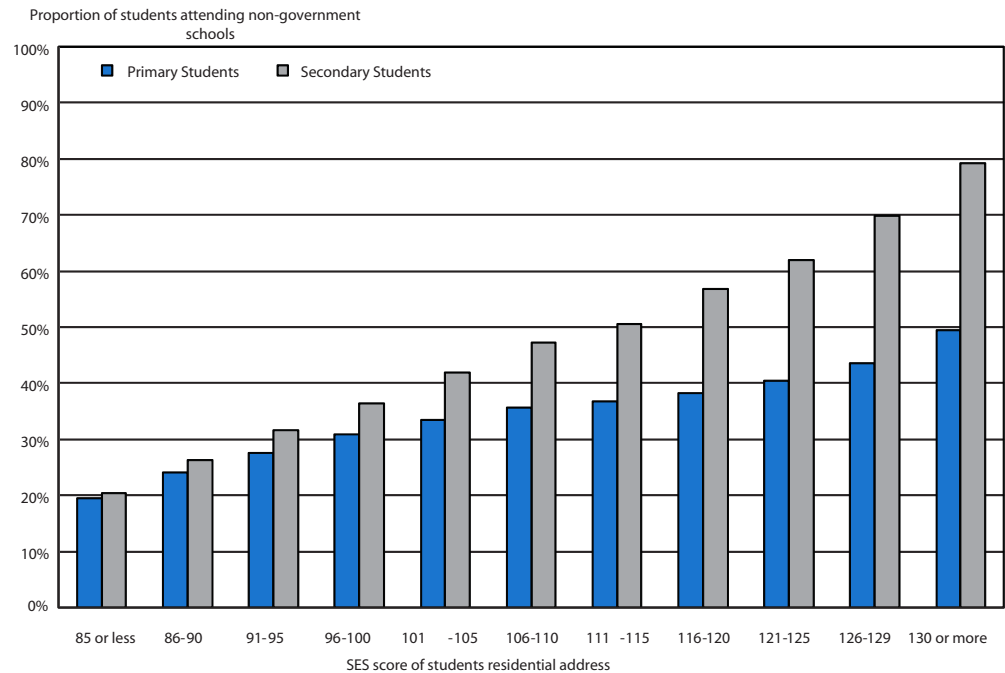
4.17 Figure 4.1 shows the proportion of Australian primary and secondary students enrolled at non-government schools by the SES scores of those schools. The proportion of primary students attending non-government schools rises from 19.5 per cent of primary students living in ABS Census Collection Districts with SES scores of 85 or less (lower SES communities), to 49.5 per cent in Collection Districts with SES scores of 130 or more (higher SES communities). The proportion of secondary students attending non-government schools rises from 20.3 per cent of primary students living in

⁷² Examples provided included: an analysis completed in 2006 of data on students and staff (for 2004), and financial data (for 2003) for non-government schools by school system and State or Territory, information on schools which may be placed in financial jeopardy owing to economic conditions (undated), and a Ministerial brief (in 1998) on a review of the Education Resources Index (the precursor to the SES funding arrangements). Although one analysis, prepared in November 2007 for the previous Government, specifically focussed on the SES funding arrangements, the scope of the analysis did not include whether all principles underpinning the SES funding arrangements had been or were being met. For example, the analysis did not consider whether the principle that 'private investment in education should not be discouraged; schools should be able to raise private income without penalty' had been met. The review was not provided to the Government owing to the general election in late 2007.

Collection Districts with SES scores of 85 or less to 79.3 per cent in Collection Districts with SES scores of 130 or more. Therefore, the proportion of students attending non-government schools rises with the socio-economic status of the schools' communities.

Figure 4.1

Proportion of students attending non-government schools by SES scores for 2006



Source: ANAO analysis of ABS 2006 census data.

4.18 Although the proportion of students attending non-government schools rises with SES scores of their communities, it remains the case that around 20 per cent of students from low socio-economic communities accessed non-government schools in 2006.

4.19 To assess whether low income families have greater access to the schools of their choice, the department could extend the analysis to include the years leading up to, and since the commencement of the SES funding arrangements.

Indigenous students access to non-government schools

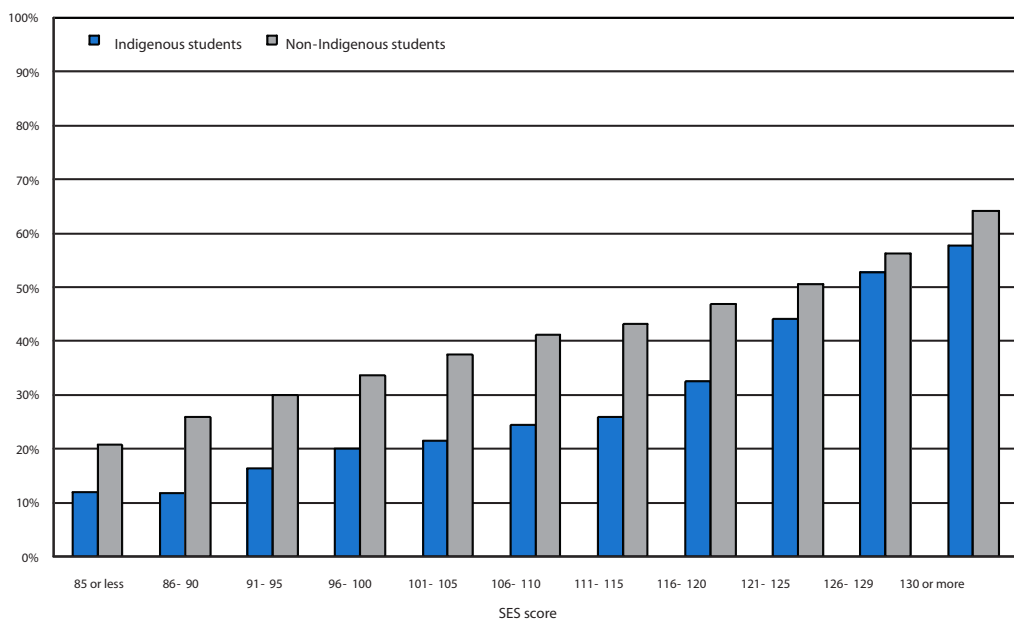
4.20 The ANAO also compared the proportions of non-Indigenous and Indigenous students across ABS Collection Districts attending

non-government primary and secondary schools. Figure 4.2 shows the percentage of non-Indigenous and Indigenous students attending non-government schools in 2006. For example, 12 per cent of Indigenous students living in ABS Census Collection Districts with an SES score of 85 or less (lower socio-economic areas) attend non-government schools. This compares with 21 per cent of non-Indigenous students living in ABS Census Collection Districts with an SES score of 85 or less attending non-government schools.

4.21 Again, extending the analysis—to include the years leading up to and since the commencement of the SES funding arrangements—would assist the department in identifying changes in the number of Indigenous students accessing non-government schools.

Figure 4.2

Proportion of non-Indigenous and Indigenous students attending non-government primary and secondary schools in 2006



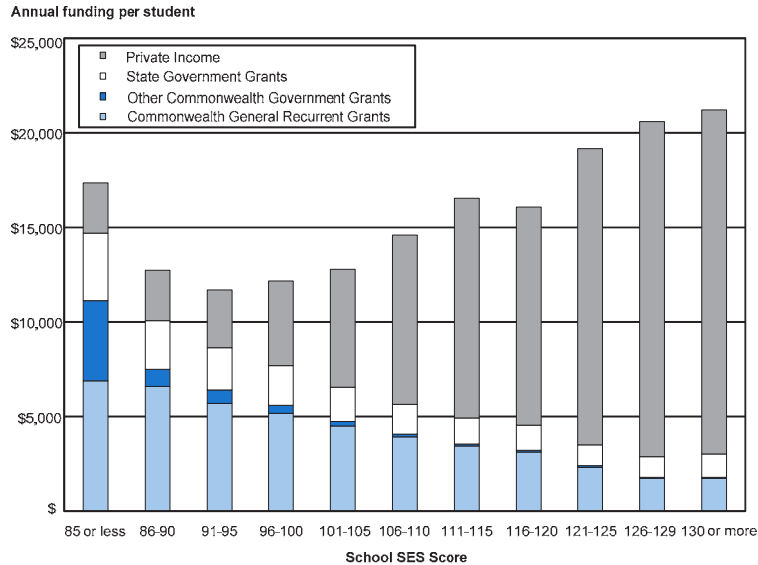
Source: ANAO analysis of Australian Bureau of Statistics 2006 Census data.

The SES funding arrangements encourage private investment in non-government schools

4.22 The ANAO examined the extent to which private funding for non-government schools (predominantly parent contributions) rises with school SES scores. Figure 4.3 shows that total (per student) funding in non-systemic non-government schools tends to rise with schools' SES scores—with the falls in per student general recurrent grants funding being more than offset by increased per student private funding. Figure 4.4 shows the distribution per student of general recurrent grants funds in 2006 by Approved Authorities for systemic schools. It illustrates that there is little difference in per student private income (predominantly parent contributions) for systemic schools with SES scores greater than 100. That is, private investment does not greatly increase as SES scores increase. This could be partly related to the school systems' school and tuition fees policies.

Figure 4.3

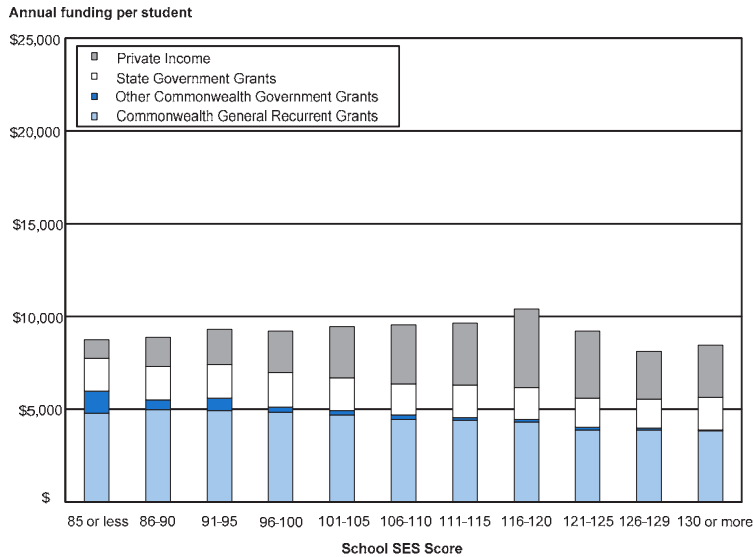
Non-systemic school funding sources, by school SES scores, 2006



Source: ANAO analysis of non-government schools Financial Questionnaire data.

Figure 4.4

Systemic school funding sources, by school SES scores, 2006

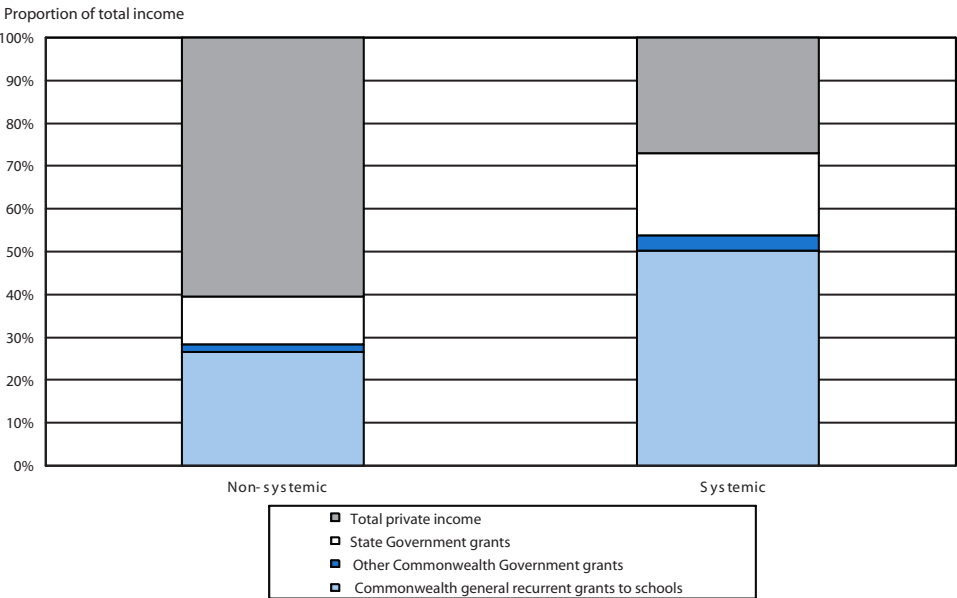


Source: ANAO analysis of non-government schools Financial Questionnaire data.

4.23 The difference in the distribution per student of Australian Government general recurrent grants between non-systemic and systemic schools is most likely because of the difference in methods used to distribute these grants to these schools. Specifically, the department distributes general recurrent grants directly to individual non-systemic schools based on their SES scores (for schools funded under the SES arrangements), or on their historical general recurrent grants entitlement (for schools funded under the funding maintained and funding guarantee provisions). In contrast, the department distributes general recurrent grants directly to Approved Authorities for school systems based on affiliated schools' SES scores (for those funded under the SES arrangements), or on their historical general recurrent grants entitlement (for schools funded under the funding maintained and funding guarantee provisions). The non-government system then has discretion in the distribution of grants to affiliated schools.

4.24 Figure 4.5 (grey shaded areas) shows that the proportion of total funding made up by private investment is highest in non-systemic schools funded based on their SES scores with private income accounting for almost two-thirds of their total income. In contrast, private income accounts for less than one third of total funding for systemic schools.

Figure 4.5
Non-government school funding sources for systemic and non-systemic schools by funding status, 2006



Source: ANAO analysis of non-government Schools Financial Questionnaire data.

The SES funding arrangements provide higher levels of funding for the neediest school communities

4.25 There is a high correlation⁷³ between the SES scores and Australian Bureau of Statistics SEIFA⁷⁴ measures of socio-economic status. Over 90 per cent of the variance⁷⁵ in the ABS Census Collection Districts SES scores underpinning the non-government schools SES scores can be explained by the SEIFA Social and Education/Occupation Indices. This suggests that the SES scores are in line with other measures of socio-economic Status. Figure 4.3 shows a linear relationship between school SES scores and Australian Government annual funding per student in non-systemic schools.

4.26 Further, the average SES scores vary across the States and Territories reflecting known patterns of social/economic advantage: for example, the Northern Territory and Tasmania have lower SES scores and the Australian Capital Territory has a higher SES score.

4.27 The department can improve its performance reporting for the program in its annual report by identifying the amounts of general recurrent grants paid to non-government schools, and the performance targets that were set for administering the grants and the results achieved against these targets.

4.28 Additionally, improved data analysis would assist the department in reporting on whether the purposes of the SES funding arrangements (described by the then Minister for Education, Training and Youth Affairs in 1999) are being met. That is, whether the SES funding arrangements are giving low income families greater access to the schools of their choice, encouraging greater private investment in education and providing higher levels of funding for the neediest school communities. Improved data analysis would also better inform program management and broader policy advice.

Recommendation No.4

4.29 The ANAO recommends that the department:

- include in its annual report, the amounts of general recurrent grants paid to the non-government schools sector, the performance targets

⁷³ Changes in the SES scores are accompanied by changes in the SEIFA measures.

⁷⁴ The Australian Bureau of Statistics constructs Socio-Economic Indexes for Areas (SEIFA) indexes for individual Collection Districts.

⁷⁵ A statistical measure of the volatility or dispersion of a distribution about its mean or average value.

that were set for administering the grants and the results achieved against these targets; and

- increase analysis of non-government schools data to assist in measuring and reporting on whether the purposes of the SES funding arrangements and underpinning principles are being met, and to better inform program management and broader policy advice.

DEEWR's response

4.30 DEEWR agrees with this recommendation with qualifications.

4.31 The Department currently includes aggregated amounts of general recurrent grants paid to non-government and government schools, the performance targets set for administering the grants and the results achieved against these targets in its Annual Report. In addition, the Department publishes annually in its Green Report its Report on Financial Assistance Granted to Each State. This report provides a detailed breakdown of financial assistance granted, other authorised payments and expenditure of funds appropriated in line with the Government's objectives for schools. The Department agrees to investigate the feasibility of including further financial and performance data in its 2011 Annual Report.

4.32 The Department agrees analysis of non-government school data will be undertaken to inform broader policy advice through the forthcoming review of school funding arrangements.

Analysis to inform program management

4.33 In 2006, systemic schools received a total of \$3.3 billion in general recurrent grants for non-government schools. This amount represented 69 per cent of the total amount of Australian Government general recurrent grants for non-government schools in that year.

4.34 In 1999 when announcing the Australian Government's new funding arrangements, the Minister affirmed that:

The Commonwealth expects that within systems, recurrent funds will be distributed differentially according to need.⁷⁶

⁷⁶ *Choice and Equity: Funding Arrangements for non-government Schools 2001—2004*, Statement by the Honourable Dr David Kemp, Minister for Education, Training and Youth Affairs, 11 May 1999, p.6.

4.35 This expectation is reflected in the *Commonwealth Programs for Schools—Quadrennial Administrative Guidelines, 2005-2008*, approved by the Minister, as follows:

...the approved authority of the system will have the overall responsibility for the distribution between constituent schools of the total financial and other resources of the system, and will have the responsibility to distribute those resources between schools differentially according to need within overall Commonwealth policy guidelines...⁷⁷

4.36 Further, a condition of funding in the agreement for 'Approved School Systems' is that these systems comply with the Guidelines as follows:

Subject to sufficient funds being available for the Programmes, compliance by You with this agreement, the Act, the Regulations and the Guidelines, We will provide You with the Grants listed in the Schedules for the periods set out in the Schedules.⁷⁸

4.37 However, the department did not have information on the funding formulae that non-government school systems use to distribute funds to their affiliated schools, including whether and how these formulae account for need.

4.38 Figure 4.3 shows that Australian Government general recurrent grants funding (shaded light blue) for non-systemic schools falls as school SES scores rise. This reflects the fact that non-systemic schools are directly funded by the Australian Government, with around three quarters of these schools being funded based on their SES score. In contrast, Figure 4.4 shows that school systems appear to give less weight to individual school SES scores when distributing Australian Government general recurrent grants to affiliated schools.

Assurance that school systems distribute general recurrent grants based on need

4.39 The ANAO sought advice from the department on whether it sought assurance that Approved Authorities for school systems allocated general recurrent grants to non-government schools having regard to the respective needs of the schools in the system. The department advised that:

⁷⁷ *Commonwealth Programs for Schools – Quadrennial Administrative Guidelines, 2005-2008, 2008 update*, p.95.

⁷⁸ Australian Government, Department of Education, Science and Training, *Funding Agreement, 2005–2008*, Clause 3.

The SES methodology is a way of distributing general recurrent funds nationally based on the relative need of school communities. System authorities are given the flexibility to consider other factors in the distribution of funds as they are expected to have much more detailed knowledge of the individual circumstances of school than the government can achieve at a national level. It would not be unreasonable to assume that the systems would use a combination of tools, including (but not limited to): the schools' SES, the proportion of fees collected from a school, the costs of attracting or retaining staff at a school (such as for rural or remote schools), the level of staff experience (and their associated salaries), the age of the school facilities (which would mean maintenance costs were higher at older schools), a new systemic school may require more assistance than a well-established one, the ability for schools to share resources or the proportion of students with disabilities. The Department's does not specify how the non-government system authorities should define need (for the purposes of general recurrent grant distribution).

4.40 The department further informed the ANAO that:

The Department has not issued policy guidelines on how need should be assessed by school system authorities. In allocating funding to non-government schools, the Commonwealth uses the SES index as the measure of need. Our contract with non-government school system authorities sets out the Commonwealth's expectation that funding will be allocated to member schools on the basis of need.

...The Department does not specify how non-government system authorities define need, nor does the Department collect information as to the methodology on how systems distribute their funds. In particular, there is no requirement for the Department to assess systemic school needs against the SES mechanism.

...Equally, the Commonwealth requires the distribution of funds to government schools to be on the basis of need, but does not define need.

4.41 On this issue, an Approved Authority for a school system advised the ANAO that:

Inequalities between schools include geographical and socio-economic inequalities, differences in the sizes of regions and ensuring the viability of small, remote schools and schools specifically targeted to student groups such as indigenous, Students with disabilities or students at risk. Ensuring the viability of schools that would be financially unviable if forced to 'stand alone' through the support of the distribution of funding is a central funding role of the system in each state and territory. Approved Authorities throughout Australia incorporate elements such as staffing requirements, socio-economics,

remoteness and isolation, the number of students from specific targeted groups (such as students with a disability, Indigenous and English as a second language students), the relative size and geographical differences for regions and schools, school size and student enrolments. Approved Authorities draw upon these, and other factors, in the allocation of general recurrent grants funding for schools.

4.42 As, noted above, under the program guidelines school systems are required to distribute these grants differentially according to need. By identifying the methods used by school systems to distribute general recurrent grants, the department would be better placed to assess whether school systems are distributing these grants consistent with Australian Government policy guidelines and with their contractual arrangements.

Potential overlap with other government programs

4.43 The Government applies under other programs a number of the factors mentioned earlier in this chapter (described by the department as potentially being used by Approved Authorities for school systems) to distribute general recurrent grants. For example:

- the 'Remote per capita loading' which provides an additional five to 20 per cent of funds to a school's SES funding entitlement depending on remoteness;
- 'Special school and special assistance schools' which are automatically given the highest amount of funding available (70 per cent of AGSRC);
- 'Strategic assistance' which is a per capita grant for schools with children with a disability; and
- the Literacy, Numeracy and Special Learning Needs Program which provides targeted assistance for children with disabilities.

4.44 By identifying the methods used by Approved Authorities for school systems to distribute general recurrent grants, the department would also be in a better position to identify any overlap with other government programs.

Recommendation No.5

4.45 The ANAO recommends that the department request from school systems, information on their funding formulae used to distribute general recurrent grants to their affiliated schools, to assess whether:

- distributions are made according to need within overall Australian Government policy guidelines; and
- there is any overlap with other Government programs.

DEEWR's response

4.46 DEEWR agrees with this recommendation and undertakes to consult school systems commencing by the last quarter of 2009 and request they provide details of how they distribute Australian Government funding to their member schools. The Department will assess all data received in response to this request.

Conclusion

4.47 The department can improve its annual reporting of the program by including information on general recurrent grants paid to the non-government schools sector, the performance targets that were set for administering the grants and the results achieved against these targets.

4.48 In May 1999, the then Minister for Education, Training and Youth Affairs announced new funding arrangements for non-government schools for 2001–04. In the statement, the then Minister stated that:

These arrangements will give low income families even greater access to the schools of their choice, encourage greater private investment in education and provide higher levels of funding for the neediest school communities.⁷⁹

4.49 An examination of publicly available documents and departmental records reveals that there is limited information available to the Parliament and to the Government on whether the purposes of the SES funding arrangements (including the funding maintained and funding guarantee provisions) and underpinning principles are being met. The department monitors and reports expenditure on non-government schools under the legislation. However, the department conducts little analysis on a range of available data to assist in measuring and reporting on whether the purposes and principles of the SES funding arrangements are being met. Analysing such data would also assist the department to improve program performance and inform broader policy advice.

⁷⁹ *Choice and Equity: Funding Arrangements for non-government Schools 2001—2004*, Statement by the Honourable Dr David Kemp, Minister for Education, Training and Youth Affairs, 11 May 1999.

4.50 The department did not have information on non-government school systems' funding formulae to assure itself that these systems distribute funds according to need. ANAO analysis reveals that for 2006 there was little difference in the per student amounts distributed by school systems to their schools across SES scores, compared with amounts received per student by non-systemic schools across SES scores. By identifying the methods used by Approved Authorities for school systems to distribute general recurrent grants, the department would be better placed to assess whether these authorities distributed these grants consistent with Australian Government policy guidelines and with their contractual arrangements.



Ian McPhee

Auditor-General

Canberra ACT

24 June 2009

Appendices

Appendix 1: Agency response



Australian Government

Department of Education, Employment and Workplace Relations

Mr Matt Cahill
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr Cahill

Performance Audit of Funding for Non-government Schools

Thank you for the opportunity to comment on the Australian National Audit Office's (ANAO) Performance Audit on the Department of Education, Employment and Workplace Relations (DEEWR) – Funding for Non-government Schools.

As indicated in our overall comment to the executive summary, the department welcomes the ANAO's findings and broadly accepts the ANAO's recommendations.

Please find attached the department's response on the proposed audit report, comprising a short summary of our response to be included in the report brochure; and response to each of the reports recommendations.

If you have any queries regarding the department's response, please contact myself on (02) 6121 7033.

Yours sincerely

Glen Casson
A/g Chief Internal Auditor
5 June 2009



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DEEWR'S RESPONSE TO ANAO REPORT

1. DEEWR Management Response for Audit Report on Funding for Non-government Schools

The Department of Education, Employment and Workplace Relations (DEEWR) appreciates the opportunity to participate in the performance audit of funding for non-government schools.

DEEWR welcomes the ANAO's findings. DEEWR broadly accepts the ANAO's recommendations and is of the view that these will strengthen the processes in relation to the funding of non-government schools.

DEEWR has agreed with four of the recommendations in the report and has agreed one with qualification.

DEEWR's response to each of the audit's recommendations is as follows:

Recommendation 1

The ANAO recommends that the department review the scope of its fraud risk assessment for the program to include consideration of the risks associated with the provision of data by non-government schools for the calculation and payment of general recurrent grants.

DEEWR agrees with this recommendation.

The Department currently has comprehensive risk management strategies for non-government schools funding programs. The Department has commenced a review of its risk assessment to better reflect both the management of potential fraud and the new compliance regime for the 2009-2012 quadrennium.

The Department also undertakes to update this risk assessment every second year to ensure it remains contemporary and reflects any emerging risks.

Recommendation 2

The ANAO recommends that the department examine the effectiveness of program controls and quality assurance checks designed to reduce errors when executing agreements with non-government schools for payments of general recurrent grants.

DEEWR agrees with this recommendation and notes the ANAO concluded all agreements with non-government schools systems for the 2005-08 quadrennium were properly executed. The Department further notes ANAO concludes the impact of the minor error rate in the execution of agreements with non-systemic schools may be low.

The Department has re-examined and verified the legality of all of the 2005-2008 funding agreements and those agreements signed for the 2009-2012 quadrennium.

The Department will examine the effectiveness of program controls and quality assurance checks associated with the execution of agreements with non-government schools for payments of general recurrent grants.

Recommendation 3

The ANAO recommends that the department consult with non-government school systems on data sharing so as to agree on access to and use of school data to assist in improving the department's targeting of checks on the accuracy of non-government schools census data.

DEEWR agrees with this recommendation.

The Department undertakes to consult commencing by the last quarter of 2009 with non-government school system authorities and non-systemic school representative bodies on the proposed inter-governmental sharing of information and will consult with non-government school system authorities on their census data verification processes.

Recommendation 4

The ANAO recommends that the department:

- *include in its Annual Report, the amounts of general recurrent grants paid to the non-government schools sector, the performance targets that were set for administering the grants and the results achieved against these targets; and*
- *increase analysis of non-government school data to assist in measuring and reporting on whether the purposes of the SES funding arrangements and underpinning principles are being met, and to better inform program management and broader policy advice.*

DEEWR agrees with this recommendation with qualifications.

The Department currently includes aggregated amounts of general recurrent grants paid to non-government and government schools, the performance targets set for administering the grants and the results achieved against these targets in its Annual Report. In addition, the Department publishes annually in its Green Report its Report on Financial Assistance Granted to Each State. This report provides a detailed breakdown of financial assistance granted, other authorised payments and expenditure of funds appropriated in line with the Government's objectives for schools. The Department agrees to investigate the feasibility of including further financial and performance data in its 2011 Annual Report.

The Department agrees analysis of non-government school data will be undertaken to inform broader policy advice through the forthcoming review of school funding arrangements.

Recommendation 5

The ANAO recommends that the department request from school systems, information on their funding formulae used to describe general recurrent grants to their affiliated schools, to assess whether:

- *distributions are made according to need within overall Australian Government policy guidelines; and*
- *there is any overlap with other Government programs.*

DEEWR agrees with this recommendation and undertakes to consult school systems commencing by the last quarter of 2009 and request they provide details of how they distribute Australian Government funding to their member schools. The Department will assess all data received in response to this request.

2. Short Summary of DEEWR's comments for inclusion in preparation of report summary and brochure

The Department of Education, Employment and Workplace Relations (DEEWR) welcomes the ANAO's findings. DEEWR broadly accepts the ANAO's recommendations and is of the view that these will strengthen the processes in relation to the funding of non-government schools.

DEEWR has agreed with four of the recommendations in the report and has agreed one with qualification.

3. DEEWR's detailed/editorial comments on the audit

Page No	Paragraph No	Comment
7	<p>Glossary – funding guarantee</p> <p>Glossary – funding maintenance</p>	<p>It needs to be clear that funding guarantee applied from 2005 (excluding Catholic systemic schools). There were no funding guaranteed schools before 1 January 2005).</p> <p>Similarly, it needs to be clear that funding maintenance applied to independent schools only (if applicable) from 1 January 2001. These schools were funding maintained at their 2000 funding levels.</p> <p>Catholic systemic schools were funding maintained (if applicable) from 1 January 2005 and were funding maintained at their 2004 funding levels.</p>
8	Glossary – Socio-economic status funding model	Delete the words "student population" and substitute the word "community". This should read, "A funding model that links students residential address data with Australian Bureau of Statistics (ABS) national Census data to obtain a measure of the capacity of the school community to support its school."
12	9	<p>The following statement is too broad: "The 2008 Act continues the funding arrangements for non-government schools that were previously in place under the 2004 Act". At this point in the document, GRG has not been introduced so the statement refers to all funding under the Act. As such it is incorrect as some programs have ceased and new ones have been created (such as Indigenous Supplementary Assistance) under the 2008 Act.</p> <p>The sentence (and the one following it) be moved to after para 17 (ie: after the focus has narrowed to GRG) and can then be used in reference to the non-government GRG funding mechanism and process.</p>

14	15	<p>The paragraph would be more correct if it read as follows:</p> <p>"At the beginning of the 2005-08 quadrennium, SES scores were calculated for all non-government schools. The majority of Catholic systemic schools (about 61 per cent or 970 schools) received SES scores that would have led to reduced funding. All these schools were covered by the funding maintained provision and had their funding maintained at their 2004 level with indexation. All other non-government schools that were previously funding maintained continued to be funding maintained at their 2000 funding levels with indexation if their recalculated SES scores would have led to reduced funding. Australian Government general recurrent grants to Catholic systemic schools continued to be paid to Catholic Education Offices, which are required to distribute these funds based on need."</p>
14	16	<p>We suggest the addition of the following words to improve clarity in the first sentence:</p> <p>"The re-calculation of SES scores for the 2005-08 quadrennium for schools other than Catholic systemic schools meant that some schools..."</p>
16	22	<p>The last two sentences of this paragraph are misleading. We recommend the following wording:</p> <p>"...In 2006, 53 per cent of non-government schools were funded on the basis of their SES score. The remaining non-government schools were either funding maintained or funding guaranteed."</p>
17	27	<p>We are concerned that the fourth sentence could be misleading. It is not the fact that the Australian Government provides less funding for low SES schools. Rather, it is that school systems may have redistributed per student grants differentially. We recommend the following wording: "...ANAO analysis found that systemic schools with low SES scores (that is, schools servicing low socio-economic communities) received less general recurrent grants per student from their school system than if they were directly funded under the SES arrangements (as are non-systemic schools)."</p>
35	1.18 and 1.19	See comments above – page 14 paragraphs 15 and 16.
37	1.23	The first sentence needs rewording: "Since 2001 (and 2005 for Catholic systemic schools) the socio-economic status (SES) of school communities has been used as the basis for funding."

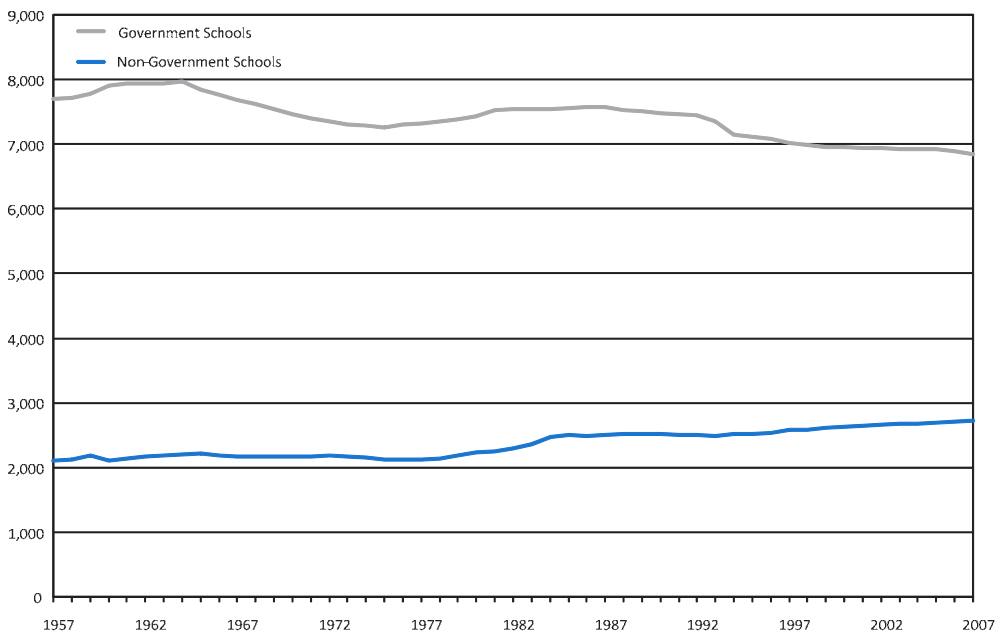
54	2.32	<p>This is incorrect. The Department did provide details on the nature of the checks. This included a copy of the student address collection manual for 2009-2012 which contains the file format and field specifications for the address data. The Department also advised the ANAO that the SES Website automatically performs address data checks to validate the addresses: these checks are part of the programming of the SES Website application. These are in addition to the manual validations that occur during the geocoding process.</p>
54	2.33	<p>The third sentence is incorrect. It should read: "The department geocodes a minimum of 95 per cent of student residential addresses. Any addresses that cannot be geocoded, <i>and are required to meet the 95 per cent minimum</i>, are followed up with the school.</p>
71	<p>Performance information for the SES funding arrangements (including funding and maintained and funding guarantee provisions)</p> <p>See also page 79, para 4.28</p>	<p>The Department reiterates its previous advice that the SES index is a distributive mechanism and that the objectives for the SES funding arrangements are to distribute funding according to need, and that schools serving the neediest communities receive the greatest financial support. The ANAO has focussed only on the first introductory paragraph of the Ministerial Statement issued by Dr Kemp in 1999 to determine its objectives for the SES funding arrangements. The following extracts which outline the objectives of the SES funding arrangements have been provided to the ANAO.</p> <p>Extract from Second Reading Speech for States Grants (Primary and Secondary Education Assistance) Bill 2000 (6/9/2000) - "It is clear that this bill provides the mechanisms for distributing funding according to need and that schools serving the neediest communities will receive the greatest financial support under this legislation."</p> <p>Extract from Explanatory Memorandum for States Grants (Primary and Secondary Education Assistance) Bill 2000 - "The Bill includes provision for the new socioeconomic status or SES based funding arrangements. Under the new arrangements general recurrent funding will be distributed according to need and schools serving the neediest communities will receive the greatest financial support."</p>
74	4.19 and 4.21	<p>The Department has previously advised it does not have student residential address data prior to 2000 which would be required to undertake the analysis suggested by the ANAO.</p>

Appendix 2: Growth in the number of non-government schools and students over the past five decades

Non-government schools

- 1. Figure A1 shows that the numbers of non-government schools have increased from 2122 in 1957 to 2728 in 2007, while the numbers of government schools declined from 7712 to 6853 over this period.

Figure A 1
Numbers of non-government and government schools, 1957–2007

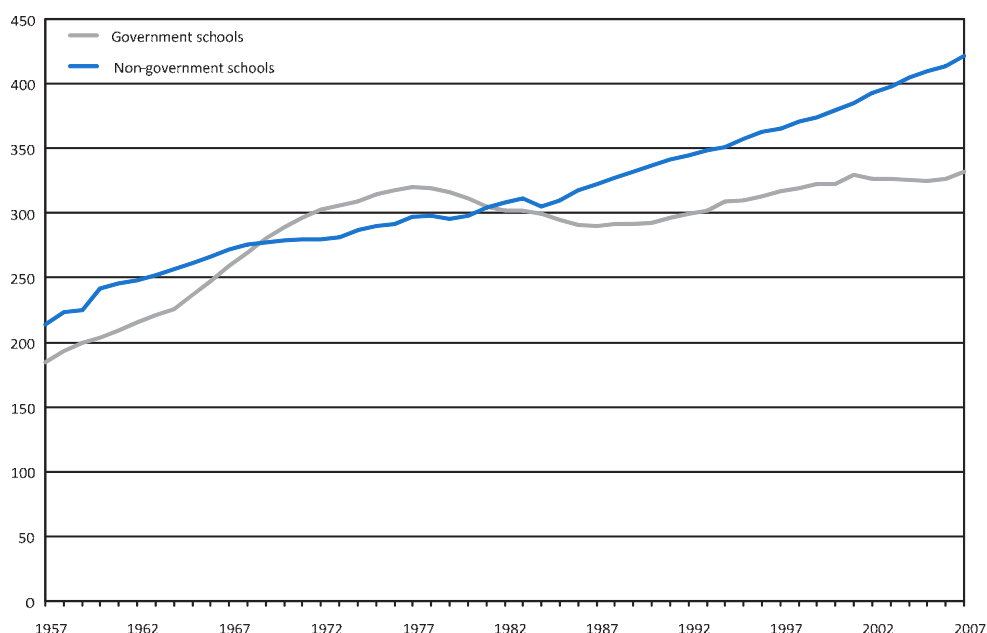


Source: ABS Catalogue Number 4221.0 – Schools Australia, various issues.

2. Figure A2 shows that:
- the average size of a non-government school has risen steadily over the past 50 years from 214 students in 1957 to 421 students in 2007; and
 - in contrast, the average size of a government school rose from 185 students in 1957 to 321 students in 1977, then declined over the following decade to 290 students in 1987, and then rose to 332 students in 2007.

Figure A 2

Average number of students in individual government and non-government schools, 1957–2007

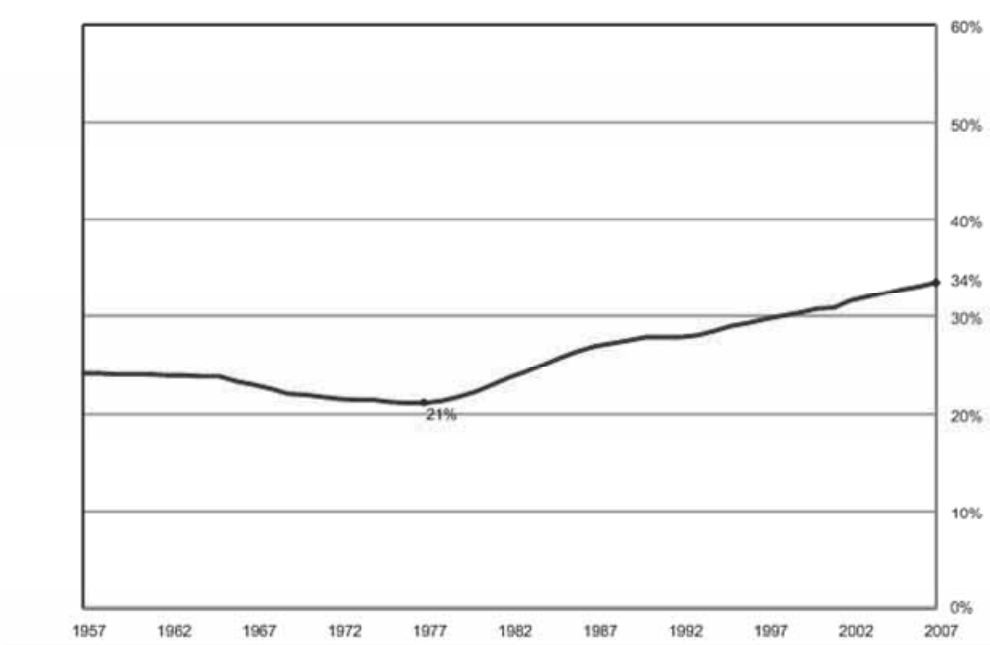


Source: ABS Catalogue Number 4221.0 – Schools Australia, various issues.

3. Figure A3 shows that the proportion of Australian students attending non-government schools has risen steadily over the past three decades, from 21 per cent of students in 1977 to 34 per cent of students in 2007.

Figure A 3

Proportion of students attending non-government schools, 1957–2007



Source: Catalogue Number 4221.0–Schools Australia, various issues.

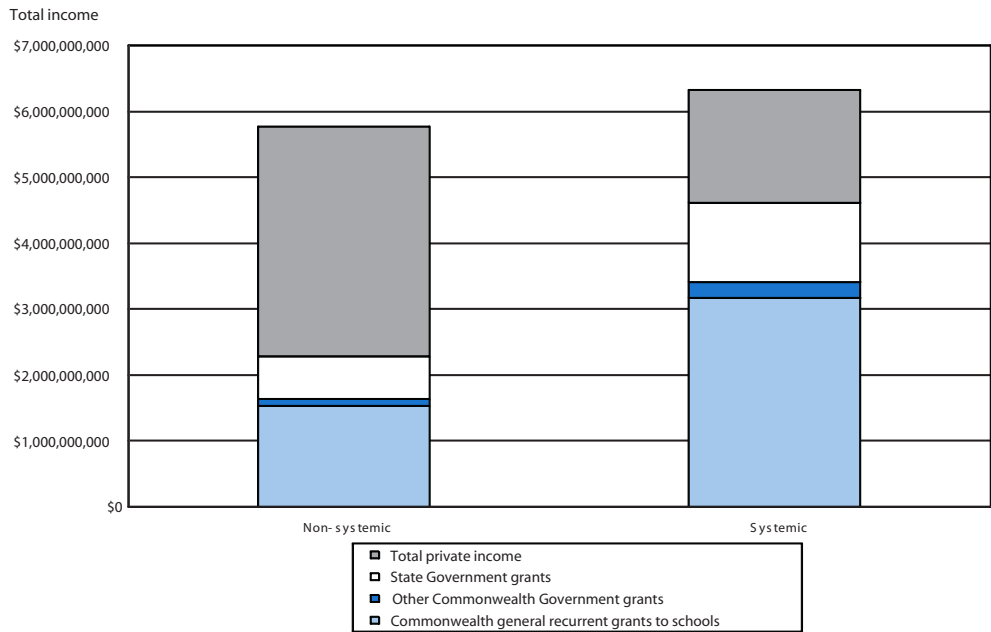
4. In 2007 30 per cent of Australian primary students attended non-government schools and 39 per cent of secondary students attended non-government schools.

Appendix 3: Distribution of Australian Government, State and Private funding across systemic and non-systemic schools for 2006

1. Figure A4 shows that, in 2006:
- non-systemic schools received a total of \$1.6 billion of Australian Government funding (31 per cent of total Australian Government funding for non-government schools); and
 - systemic schools received a total of \$3.3 billion of Australian Government funding (69 per cent of total Australian Government funding for non-government schools).

Figure A 4

Non-government school funding sources, systemic and non-systemic schools, amount of funding, 2006



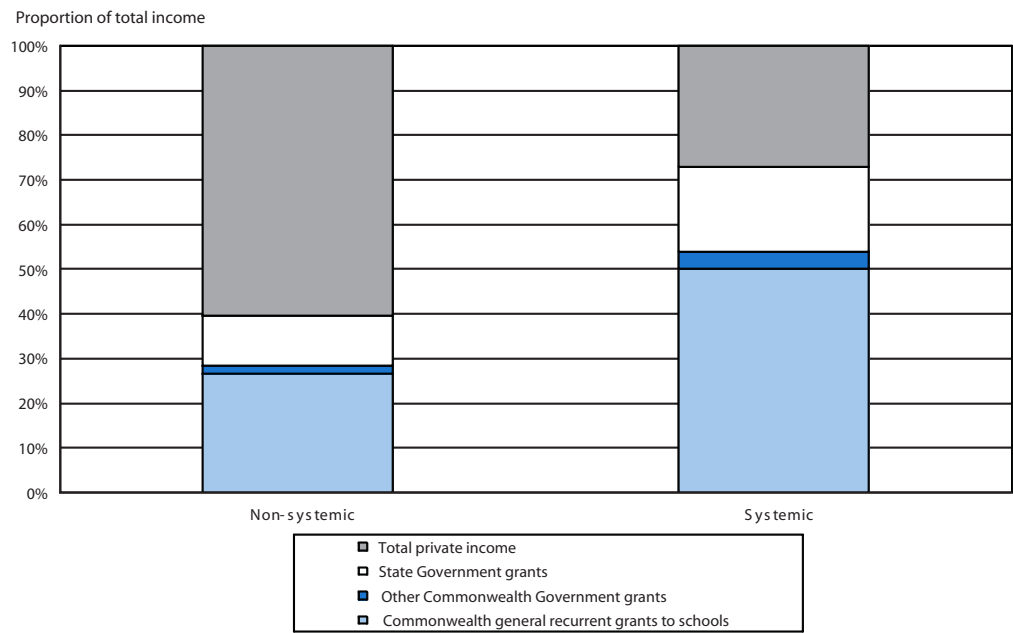
Source: ANAO analysis of non-government schools Financial Questionnaire data.

2. Figure A4 also shows that non-systemic schools received less total Australian Government funding than systemic schools in 2006. However, it should be noted that Catholic systemic schools make up about 70 per cent of the non-government sector and 90 per cent of all systemic schools, and have an average SES score of 99. The majority of

Catholic systemic schools are funding maintained. The average SES score of non-Catholic systemic schools is 98. The average SES score of non-systemic schools is 103. The lower average SES score of systemic schools (and the correspondingly higher general recurrent grants funding) coupled with the size of the Catholic sector means that systemic schools receive more general recurrent grants funding than non-systemic schools.

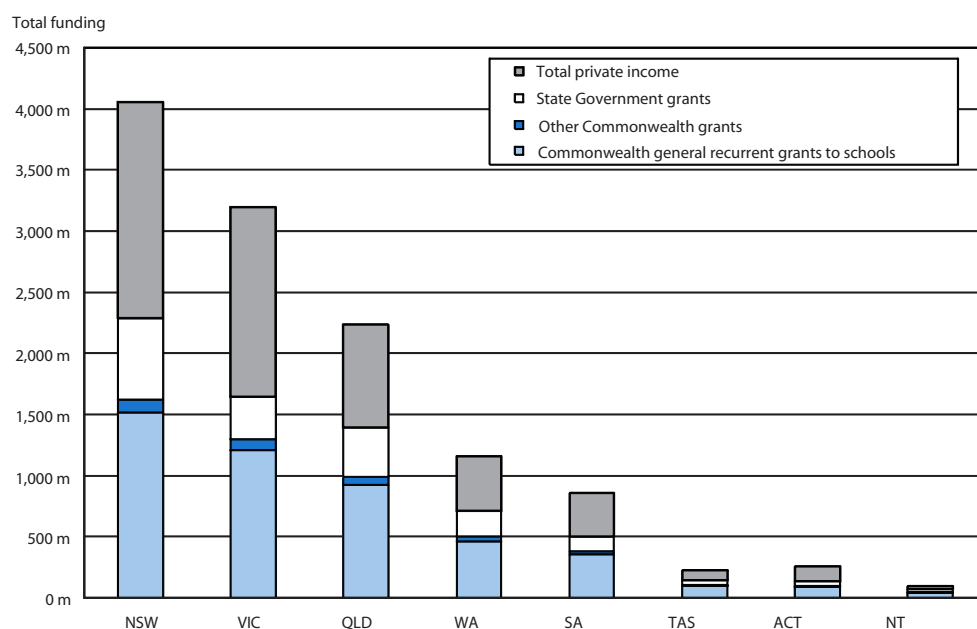
3.
- Figure A5 shows that systemic schools receive a significantly lower proportion of their funding from private sources than non-systemic schools. In 2006, private income accounted for:
- 27 per cent of total funding for systemic schools; and
 - 60 per cent of total funding for non-systemic schools.

Figure A 5
Non-government school funding sources, systemic and non-systemic schools, percentage of funding, 2006



Source: ANAO analysis of non-government schools Financial Questionnaire data.

4.
- Figures A6 and A7 show the distribution of Australian Government, State and Territory, and Private funding (in absolute and proportional terms, respectively) across the States and Territories.

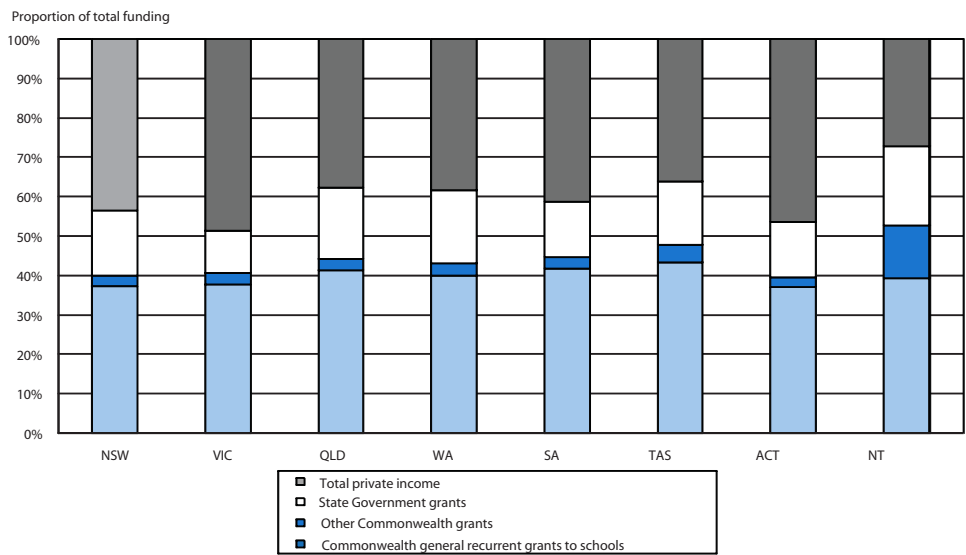
Figure A 6**Non-government school funding sources, amount of funding, by State/Territory, 2006**

Source: ANAO analysis of non-government schools Financial Questionnaire data.

5. Figure A7 shows that, as a proportion of total non-government school income:
- total Australian Government funding (general recurrent grants and other Australian Government grants) ranges between 39 per cent of total income in the ACT and 52 per cent in the Northern Territory; and
 - total government funding (Australian Government and State and Territory grants) ranges between 52 per cent of total income in Victoria and 72 per cent of total income in the Northern Territory.

Figure A 7

Non-government school funding sources, percentage of funding, by State/Territory, 2006

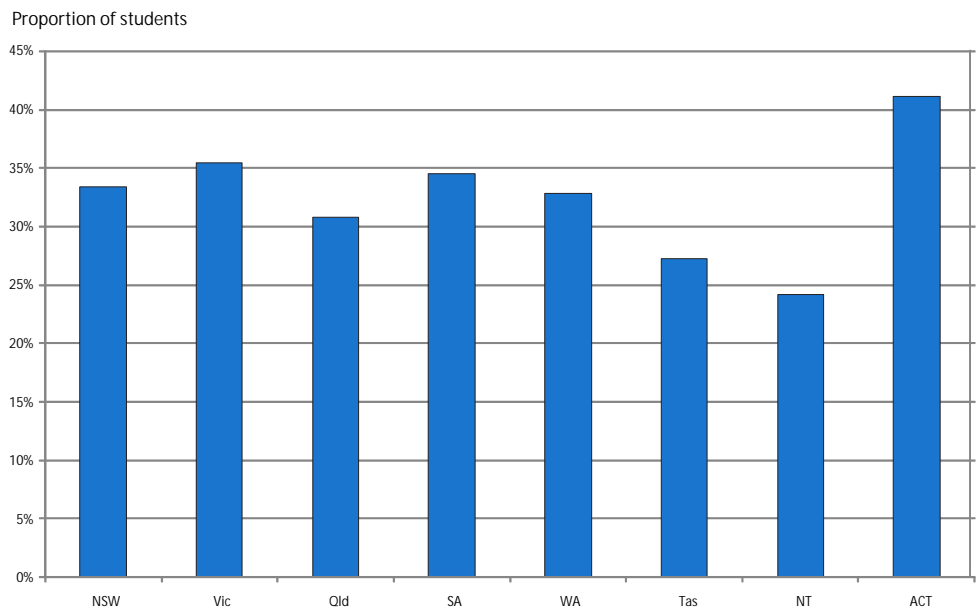


Source: ANAO analysis of non-government schools Financial Questionnaire data.

Appendix 4: Proportion of students enrolled in non-government schools by State and Territory in 2006

1. Figure A8 shows the proportion of students enrolled in non-government schools by State and Territory in 2006.

Figure A 8
Proportion of full-time students in non-government Schools, by State and Territory for 2006



Source: Table 7, ABS Catalogue Number 4221.0.

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