

Sensitive



Parliament of Australia
Parliamentary Budget Office

Senator David Leyonhjelm
Liberal Democratic Party
Parliament House
CANBERRA ACT 2600

Dear Senator Leyonhjelm

Please find attached a response to your costing request, *School education* (letter of 8 August 2016).

As requested, this costing has been prepared on a confidential basis. The policy details that form the basis for the costing are as specified in your costing request. The PBO has not consulted with or drawn any policy details from a policy of any other political party or individual parliamentarian in the preparation of this costing. Accordingly, if you make this costing public, it would not be appropriate to attribute the costing to a policy of any other party or individual parliamentarian.

If you have any queries about this costing, please do not hesitate to contact Gareth Tunks on (02) 6277 9550.

Yours sincerely

Tim Pyne
Acting Parliamentary Budget Officer

13 September 2016

Sensitive



Policy costing—outside the caretaker period

Name of proposal:	School education
Summary of proposal:	<p>The proposal would:</p> <p><u>Option 1:</u> Abolish spending under the ‘education’ function, including under the ‘schools’ and ‘school education specific funding’ sub-functions, and associated spending under the ‘general administration’ sub function, with the exception of that portion of Department of Education and Training (DET), Education Services Australia and Australian Curriculum, Assessment and Reporting Authority (ACARA) funding required for national assessment, data collection and performance reporting (ie NAPLAN/MySchool).</p> <p><u>Option 2:</u> As per Option 1, except also retain recurrent schools funding authorised under the <i>Australian Education Act 2013</i> and redirect that funding to provide a payment to schools based on each child of full-time schooling age. Payments are to be differentiated according to whether the child is of primary school or secondary school age - in line with the ratio under the current school resourcing standard. Payments are to be differentiated according to whether the child suffers a disadvantage - in line with the current system of loadings for disadvantage. Payments are not to be differentiated between non-government and government schools.</p> <p>The proposal would have effect from 1 July 2017.</p> <p>Further information is requested on the estimated level of per student funding that would be provided under Option 2 compared to current arrangements.</p>
Person/party requesting the costing:	Senator David Leyonhjelm, Liberal Democratic Party
Did the applicant request the costing be confidential:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Date costing request received:	9 August 2016
Date costing completed:	13 September 2016
Expiry date of the costing:	Release of the next economic and fiscal outlook report.

Costing overview

Option 1: Abolish specified expenditure under the education spending function¹

The proposed option would be expected to increase both the fiscal underlying cash and balances by \$57,810 million over the 2016-17 Budget and forward estimates period. This impact is due to a decrease in administered expenditure of \$57,310 million, predominately relating to the termination of funding for schools, and a decrease of \$500 million in departmental expenditure, predominately for DET.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	18,620	19,120	20,060	57,810
Underlying cash balance	-	18,620	19,120	20,060	57,810

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Option 2: As per Option 1, except retain recurrent school funding at current levels but redirect on a per student basis and abolish certain programs

The proposed option would be expected to increase both the fiscal and underlying cash balances by \$1,170 million over the 2016-17 Budget and forward estimates period. This impact is due to a decrease in administered expenditure, predominately relating to ceasing education related national partnerships, non-recurrent school funding and the early learning and school support program, and a small decrease in departmental expenditure.

Table 2: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Fiscal balance	-	640	260	260	1,170
Underlying cash balance	-	640	260	260	1,170

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

¹ The term 'function' is referred to in Statement 5 of Budget Paper 1 that presents estimates of general government sector expenses and net capital investment allocated according to the various functions of government.

Both options would be expected to have an ongoing impact beyond the forward estimates and, as requested, impacts over 2016-17 to 2026-27 are provided at [Attachment A](#).

Further information requested of the estimated level of per student funding that would be provided under Option 2 compared to current arrangements is provided at [Attachment B](#).

The financial implications for both options are considered to be of a very low reliability. While estimates are based on Department of Finance aggregate expenditure estimates, given the magnitude of the change in Commonwealth policy it is difficult to estimate the impact with any certainty.

No assessment of the feasibility of each option has been undertaken or whether either option could be implemented from the specified commencement date of 1 July 2017. In relation to Option 1, it is uncertain how the reduction on Commonwealth schools funding would be made up. If alternative funding was not available from state governments or the private sector, there could be impacts on school outcomes and future productivity growth. Under Option 2 there would be a significant reallocation of resourcing between schools and schooling sectors with the potential adverse impacts on schooling outcomes in schools that lose funding. Additional impacts that may occur under both options, such as changes to state government revenue, have not been assessed.

Key assumptions

It has been assumed that:

- Option 1 of the proposal would abolish all program support departmental expenditure for DET's Outcome 1 (Improved early learning, schooling, student educational outcomes and transitions to and from school through access to quality support, parent engagement, quality teaching and learning environments) including related corporate costs, except those functions specified.
- Option 2 would reduce only departmental expenditure for DET's Outcome 1 related to elements being abolished, with no change in school related departmental funding as a result of the alternative proposed per student funding methodology for Commonwealth school funding.
- Under both options, Australian Curriculum, Assessment and Reporting Authority (ACARA) and Australian Institute for Teaching and School Leadership (AITSL) would be abolished. Functions of ACARA exempt from the abolition would transferred to DET.

Methodology

Option 1

The impact of the proposal was derived by reducing administered and departmental expenditure estimates for the specified programs, less expected redundancy payments.

Administered and departmental expenditure estimates for the specified programs were taken from within the education function, obtained from the Department of Finance 2016-17

Budget and Pre-election Economic and Fiscal Outlook 2016 reports. This includes non-government and government school funding (recurrent and non-recurrent), school education specific funding (predominately national partnerships, early learning and school support and ACARA and AITSL funding) and Outcome 1 departmental for DET.

Due to the magnitude of the decrease in departmental expenditure, a provision has been included for redundancies. The number of required redundancies was derived as the estimated reduction in average staffing levels, minus natural attrition. The average per person cost of a redundancy has been estimated at approximately \$53,000. This is based on average salary (excluding on-costs), average service length of 10.2 years (APS Statistical Bulletin 2014-15) with a payout equal to two weeks' salary per year of service, pro-rated for months of service. The impact of redundancy payments was calculated as the total number of redundancies multiplied by the average cost per person.

Option 2

The impact of the proposal was derived as per Option 1, however, retaining recurrent school funding.

There would be no impact on total Commonwealth recurrent school funding under this option, however funds would be allocated by applying the alternative methodology as specified. As a result, this option is only expected to have a small reduction on departmental expenses for DET related to non-recurrent school funding and other program abolition.

All amounts for both options have been rounded to the nearest \$10 million.

Further information

Estimates of per student funding under current arrangements and under Option 2 were derived by dividing Commonwealth school funding estimates under current arrangements and funding that would be provided under Option 2 by estimated total enrolments.

Data sources

The Department of Finance provided 2016-17 Budget and PEFO budget management system reports detailing administered and departmental spending estimates for the education function.

The Department of Education and Training provided:

- recurrent and non-recurrent school funding estimates
- school enrolment estimates
- advice that expenditure estimates related to national assessment, data collection and performance reporting are provided within the ACARA Budget statements.

Attachment A – School education—financial implications

Table A1: School education: Option 1—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Impact on fiscal and underlying cash balances													
Administered	-	18,480	18,940	19,880	57,310	20,620	21,400	22,200	23,010	23,810	24,620	25,460	218,420
Departmental	-	140	180	180	500	180	180	180	190	190	190	190	1,800
Total	-	18,620	19,120	20,060	57,810	20,800	21,580	22,390	23,190	24,000	24,810	25,650	220,220

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: School education: Option 2—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	Total to 2026–27
Impact on fiscal and underlying cash balances													
Administered	-	630	260	260	1,140	300	310	320	330	340	350	360	3,430
Departmental	-	10	10	10	30	10	10	10	10	10	10	10	80
Total	-	640	260	260	1,170	300	310	320	330	340	360	370	3,510

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Attachment B – Further information requested

Table B1: Further information relating to funding per student under current arrangements compared to funding arrangements under Option 2

(\$ per student)	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
Current arrangements	4,700	4,850	4,970	5,030	5,120	5,210	5,300	5,390	5,480	5,580
Proposed arrangements under Option 2	4,670	4,810	4,940	4,980	5,070	5,160	5,250	5,340	5,430	5,530