

# Schools

## Review outcomes

- The following changes were made to the assessment.
  - A differential assessment of primary and secondary school students has been introduced to capture the additional costs of educating secondary students. Cost weights for secondary students and fixed costs of secondary schools have been introduced in the state funded government schools and state funded non-government schools components.
  - The measure of socio-educational disadvantage has been adjusted to the bottom half of socio-educational advantage in the state funded non-government schools component. This adjustment was made as it best captured state spending on non-government schools.
  - A First Nations variable has been included in the state funded non-government schools regression, replacing remoteness variables, as it better explained non-government school funding.
- The Commission considered but did not change the following.
  - The number of students with disability was not included as a predictive variable in the regression due a lack of comparable state data.
  - Special schools will not be separately assessed from mainstream schools. The pattern of state funding of mainstream schools is a more reliable indicator of funding costs for special schools than an equal per capita assessment.
  - A regression approach (rather than the Commonwealth developed Schooling Resource Standard) will continue to assess state funding of both government schools and non-government schools. The Schooling Resource Standard does not sufficiently reflect state funding practice but it has been retained for Commonwealth funded government schools.
  - The measure of socio-educational disadvantage in state funded government schools will be retained as the lowest quartile of socio-educational advantage.
  - The number of students who speak a language other than English will not be included as a predictive variable in the regression.
  - Spending on early childhood education will continue to be included with spending on schools. The diversity of service delivery models in early childhood education between states contributes to a lack of comparable data.
- Recognising the importance of assessing the additional costs of educating students with a disability, the Commission will monitor the comparability of the Nationally Consistent Collection of Data on School Students with Disability with a view to incorporating it in the regression in a future review.

- The Commission will annually test the extent to which funding for First Nations students differs between identifiable groups of First Nations students (such as those in more remote areas, or those in schools with greater proportions of First Nations students). It will amend the regression, in consultation with states, if supported by the data.
- Recognising the evolving policy environment for early childhood education, the Commission will monitor state spending in this area.
- As part of the Commission’s forward work program, it will work with states and relevant data providers to consider how culturally and linguistically diverse students affect states’ spending on schools.

## Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission’s [consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 The Commission decision to retain the measure of socio-educational disadvantage for the government funded schools component as the lowest quartile of socio-educational advantage was made after the release of the Draft Report. The Commission’s consideration of this issue can be viewed in [Significant changes since the Draft Report](#).
- 5 This chapter includes:
  - an overview of the issues considered throughout the review
  - the Commission’s response and decision on each issue
  - GST impacts of method changes.
- 6 A description of the assessment method, incorporating changes made in the 2025 Review, can be found in the schools chapter of the *Commission’s Assessment Methodology*.

## Issues considered

### Secondary students

- 7 Secondary school students are more expensive to educate than primary school students. Similarly, secondary schools have higher fixed costs than primary schools. The Commission considered whether:
  - additional per student costs of educating secondary school students should be recognised

- fixed costs of secondary schools should be assessed separately.

## State views

- 8 Most states agreed that the additional per student costs of secondary students and the additional fixed costs of secondary schools should be separately assessed if material.
- 9 Victoria found the regression coefficient results for secondary schools to be very large and suggested that school size (and hence the effect of fixed costs per school) could be influenced by state policy.
- 10 South Australia expressed concerns around the classification of year 7 students given its transition to educating year 7 students in secondary schools in 2022.

## Commission response

- 11 The inclusion of the secondary student variable and the secondary school size variable significantly enhanced the explanatory power of the model.
- 12 While school size is influenced by individual state policies, the national average school size by remoteness areas reflects average policy. Victoria has slightly lower fixed costs than the national average and its school funding model includes additional adjustments that tend to direct funding towards smaller schools. The Commission's model attributed these additional costs to the fixed costs of all schools. While Victoria may have lower fixed costs of secondary schools than the national average, this is not evidence that the Commission's model does not reflect average policy.
- 13 Historically there have been differences in how states classify year 7 students. The Commission has defined year 7 students or above as secondary students, ensuring consistency in all assessment years.

## Commission decision

- 14 The Commission will differentially assess primary and secondary school students by introducing cost weights for secondary students and fixed costs of secondary schools into the state funded government schools and state funded non-government schools components.

## Students with a disability

- 15 States spend more educating students with a disability than other students. Therefore, differences between states in the number of students with a disability could be a significant driver of state spending needs.
- 16 The Commission considered whether fit-for-purpose school data were available for assessing the needs of educating students with a disability within the schools assessment. The Commission also considered whether special schools should be assessed separately from mainstream schools.

- 17 The Commission had concerns that the available data for an assessment of students with a disability lacked comparability between states. To assess the needs of students with a disability, the Commission would require the following:
- aggregate state data indicating the proportion of students with a disability in each state
  - school level data to estimate cost weights through a regression model and to assess consistency of the aggregate state data.

### **State views**

- 18 All states supported the conceptual basis for assessing the needs of students with a disability. However, some had concerns about data comparability between states.
- 19 As the data from the Nationally Consistent Collection of Data on School Students with Disability are used by both states and the Commonwealth for allocating funding to schools, some states said the data are of sufficient quality to use in the assessment. Victoria said if the Commission did not regard the data as of usable quality, it should use an equal per capita assessment.

### **Commission response**

- 20 If it can be done reliably, the needs of students with a disability should be assessed given the additional costs of educating these students. The Commission tested the Nationally Consistent Collection of Data on School Students with Disability for comparability (see the Draft Report for details of the testing). This found states' data are not yet sufficiently comparable for equalisation purposes. The publicly available data suggest that students with similar levels of need are identified differently in different states. The Commission will monitor the Nationally Consistent Collection of Data on Students with Disability with a view to using it in a future review.
- 21 First Nations students and socio-educationally disadvantaged students have much higher rates of disability than other students. As such, states with more First Nations and socio-educationally disadvantaged students would likely have greater enrolments in special schools if all states followed a consistent policy for special schools. Influences such as remoteness are likely to affect the cost of delivering education in special schools. Given these factors, an assessment using patterns in mainstream schools, which reflect these factors already, provides a more reliable reflection of state needs for special school funding than an equal per capita assessment.

### **Commission decision**

- 22 The Commission will:
- not include the number of students with a disability as a variable within its regressions of the drivers of state spending on schools
  - apply the model based on funding of mainstream schools to state spending on mainstream and special schools

- monitor comparability of the Nationally Consistent Collection of Data on School Students with Disability, with a view to incorporating it into the regression in a future review.

## Schooling Resource Standard

23 The Commonwealth developed the Schooling Resource Standard as the national funding formula used to allocate Commonwealth funding. The Schooling Resource Standard could be used for the schools assessment if state funding of schools was sufficiently in line with the Schooling Resource Standard's funding levels. However, the Commission had concerns that convergence was not yet sufficient for this purpose, so assessing needs using the Schooling Resource Standard would not reflect what states do.

### State views

- 24 Most states agreed that the Schooling Resource Standard funding model did not sufficiently reflect state funding practices and should not be used to assess spending for schools.
- 25 Western Australia and the Northern Territory supported using the Schooling Resource Standard, and Victoria supported incorporating elements of it, such as costs relating to students with a language background other than English. The Northern Territory said most other states' funding models came close to the Schooling Resource Standard. The Northern Territory said it was also working towards aligning with the Schooling Resource Standard and that it should replace the current assessment as it included additional drivers of need.

### Commission response

26 The Commission aims to reflect what states do. Each state has a different needs-based funding model with similar drivers to those in the Schooling Resource Standard, but with unique loadings and definitions for those drivers. The Commission's regression produces a more accurate model of what states do on average.

### Commission decision

- 27 The Commission will use a regression to model what states do in state funded government schools and state funded non-government schools.
- 28 It will use the Schooling Resource Standard for Commonwealth funded government schools.

## Socio-educational disadvantage

29 In response to state comments, the Commission considered which measure of socio-educational disadvantage would be most appropriate in the schools regression models. It proposed using the most socio-educationally disadvantaged 10% of

students instead of the most disadvantaged 25% of students in the government schools model.

## State views

- 30 The Northern Territory said that using the lowest quartile of socio-educationally advantaged students understates the disadvantage faced by its student population. It suggested using a more granular measure of socio-educational disadvantage.
- 31 Some states said that using the lowest decile of socio-educationally advantaged students would recognise the most disadvantaged but would fail to address the needs of moderately disadvantaged students. They said that only assessing the lowest decile of socio-educationally advantaged students would underestimate the increased needs of states with an above-average share of moderately disadvantaged students. Tasmania said that while using the lowest decile of socio-educationally advantaged students increased the explanatory power of the model slightly, it would lead to a lower amount of assessed spending being allocated to disadvantaged students. Victoria disagreed, saying favouring variables with a larger impact on GST distribution was not an appropriate basis for variable selection.
- 32 Western Australia said that costs associated with First Nations students could be attributed to other variables such as disadvantage. It said that this could lead to incorrect assessed expenses if the rates of students for each variable in each state differs.

## Commission response

### Government schools

- 33 The most disadvantaged decile of students in government schools attracted significantly higher funding than the rest of the most disadvantaged quartile (the 11<sup>th</sup> to 25<sup>th</sup> percentile). This suggested that a more detailed measure of socio-educational disadvantage would better reflect funding at a school level.
- 34 In government schools, including both the most disadvantaged decile and moderate levels of disadvantage in the regression produced results that were not consistent with the conceptual case. As such, only a single measure of disadvantage could be used. Using the most disadvantaged decile better explained funding at an individual school level, but this was not the case in explaining states' differing funding needs because it did not account for the costs of moderately disadvantaged students.
- 35 Using the most disadvantaged decile resulted in a lower amount of total assessed spending to disadvantaged students. This was because changing the indicator from the most disadvantaged 25% to the most disadvantaged 10% roughly halves the number of affected students, but the associated coefficient changes by less than double (increasing from 5,067 to 9,719). Additionally, the shares of students in the most disadvantaged quartile differ more between states than the shares in the most

disadvantaged decile. Thus, the larger cohort of moderately disadvantaged students is a more important driver of differences in state spending.

- 36 Many students who are in the most disadvantaged decile of socio-educational advantage are First Nations students. Therefore, in the model that uses the lowest quartile of disadvantaged students, some of the additional costs of the most disadvantaged 10% of students are captured by the First Nations cost weight.
- 37 The Commission concluded that the bottom quartile of socio-educationally advantaged students better captures state needs associated with disadvantaged students.

### **Non-government schools**

- 38 In non-government schools, the second most disadvantaged quartile had a larger coefficient than the most disadvantaged quartile. The Commission aggregated these quartiles such that the bottom half of socio-educationally advantaged students formed one of the explanatory variables in the non-government schools model.
- 39 Compared to the government sector, a broader group of disadvantaged students appear to drive state spending in the non-government sector. Both the most and second most disadvantaged quartile have positive coefficients in the non-government model. This likely reflects that, in the government sector, it is the educational need of the most disadvantaged that is most important, while in the non-government sector, the capacity of parents to contribute to the cost of education is also important.

### **Commission decision**

- 40 The Commission will retain the measure of socio-educational disadvantage as the lowest quartile of socio-educational advantage in state funded government schools.
- 41 It will adjust the measure of socio-educational disadvantage to the bottom half (rather than the lowest quartile) of socio-educational advantage in state funded non-government schools.

### **First Nations students**

- 42 In response to state comments, the Commission considered whether the inclusion of a First Nations variable in the state funded non-government schools regression model would be appropriate. It also considered whether a variable, accounting for additional costs associated with a high proportion of First Nations students in a school, could be included in the regression models for government and/or non-government schools.

### **State views**

- 43 Western Australia said that First Nations students require more support regardless of which school sector they attend. It proposed that the First Nations cost weight

used in the government schools regression also be used in the non-government schools regression.

- 44 Western Australia also noted that the additional costs of educating First Nations students has not decreased. It said that a fall in the First Nations cost weight could be reflective of newly identified First Nations students.
- 45 The Northern Territory highlighted the increased cost of providing education in schools with a high proportion of First Nations students. Conversely, Victoria said that the costs of educating its dispersed First Nations populations should be recognised.

## **Commission response**

### **Non-government schools**

- 46 The Commission considered whether a First Nations variable could be included in the non-government schools model. The non-government schools regression model in the 2020 Review included an outer regional and a remote variable, but not a First Nations student variable.
- 47 Conceptually, outer regional, remote and First Nations variables would be expected to increase costs. However, applying a First Nations cost weight derived from the government schools model, along with cost weights generated from the non-government schools regression, would result in double counting of some influences.
- 48 In contrast to the regression in the 2020 Review, including a First Nations student variable and excluding the outer regional and remote variables better captures spending in non-government schools. Therefore, a First Nations variable will be introduced, and the remoteness variables will be removed.

### **Government schools**

- 49 Each state adopts a unique approach to funding First Nations students. The regression showed that, collectively, these approaches did not include an increase in funding per student as the proportion of First Nations students in a school increased. Therefore, a First Nations proportion variable has not been introduced in the model for government schools. However, this will be monitored given indications of states moving towards linking funding per student to the proportion of First Nation students in a school.
- 50 From 2019 to 2021, the First Nations cost weight decreased from 72% to 49% of the base per student amount, while the cost weights for disadvantaged and remote students increased. Noting that changes in First Nations student identification could affect the schools assessment, the Commission will monitor this area. It will adjust the specifications measuring the additional needs of First Nations students in consultation with states if supported by the data.



- 51 The Commission considered Victoria’s argument that schools incur costs related to First Nations students regardless of the number of such students. If this is the national average policy, the regression model will include these costs as part of its fixed cost coefficients.

### **Commission decision**

- 52 The Commission will change the state funded non-government schools regression to exclude remoteness and include First Nations students.
- 53 The Commission will analyse whether different groups of First Nations students in both government and non-government schools receive different levels of funding. This will include annually testing whether the model can be improved by:
- including the proportion of First Nations students in a school
  - including separate coefficients for remote and non-remote First Nations students.
- 54 The Commission will consult with states on any proposals to adjust its regression models if supported by the data.

### **Students from non-English speaking backgrounds**

- 55 In response to state comments, the Commission considered whether a measure of students from non-English speaking backgrounds could be included in the schools regression models.

### **State views**

- 56 Victoria and the Northern Territory said they spend more to educate students from a language background other than English and that the Commission should recognise students with English as an additional language as a driver of need.

### **Commission response**

- 57 The cohort of students from a language background other than English is diverse and may not uniformly attract increased funding. For example:
- a socio-educationally advantaged child of migrants with a strong proficiency in English may attract a different level of funding than a non-English speaking refugee
  - a socio-educationally advantaged child with strong English proficiency from a non-English speaking background, may not attract higher funding than a comparable student from an English-speaking background.
- 58 The cohort of students from non-English speaking backgrounds includes some First Nations students. These students tend to live in more remote areas and attend schools with a high proportion of First Nations students. Therefore, the regression model may already assign some of these additional costs to associated attributes of these students.

- 59 To test if students from non-English speaking backgrounds could be assessed within the regression, the Commission categorised students who speak a language other than English at home into 4 groups. These groups were defined based on Indigenous status and parental education level (to measure disadvantage). These groupings were based on the classifications used in the Schooling Resource Standard. Of these groups, only the disadvantaged, non-Indigenous students from a language background other than English had a positive coefficient, but it was not material.
- 60 The Commission will explore the impact of cultural and linguistic diversity on state spending needs as part of its forward work program.

### **Commission decision**

- 61 The Commission will not include a variable for students who speak a language other than English.
- 62 As part of the forward work program, the Commission will consider how cultural and linguistic diversity affects state spending. This will include considering the impact of culturally and linguistically diverse students in the context of the schools assessment.

### **Early childhood education**

- 63 In the 2020 Review, the schools assessment method was applied to spending on early childhood education. In response to state comments, the Commission considered whether early childhood education should be separately assessed.

### **State views**

- 64 Victoria and Queensland said that early childhood education is likely to grow throughout the 2025 Review period. Victoria said that it was not appropriate to include early childhood education spending with schools spending. It noted that preschool is not compulsory, subsidies depend on income levels, and that different levels of service use for different cohorts make spending on preschools different to spending on schools. It proposed that the Commission establish a component for early childhood education. If a separate method could not be developed, it should be assessed equal per capita and be revisited in the 2030 Review.

### **Commission response**

- 65 The Commission notes this is an evolving area where policy changes are underway, and spending is growing. Under the Preschool Reform Agreement, the Australian Government and all states committed to further funding for early childhood education.<sup>1</sup> More broadly, the Australian Government is consulting on an overarching

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<sup>1</sup> Department of Education, [Preschool Reform Agreement](#), Department of Education, Australian Government, 8 May 2024, accessed 2 September 2024.

Early Years Strategy that will focus on providing a framework to improve outcomes for young children.<sup>2</sup>

- 66 States are expanding access and increasing quality of early childhood education, with some states introducing an additional year of free universal preschool.<sup>3</sup> While there is a conceptual case for isolating these costs and assessing needs, there is an absence of national data on costs for key groups. The diversity of service delivery models between states also contributes to a lack of comparable data.
- 67 To investigate whether the schools assessment would provide an appropriate proxy for spending in early childhood education, the Commission considered spending on preschools in the Northern Territory. This was because the Northern Territory has a student profile, and average cost per student, very different from the average. Therefore, if relative spending in early childhood education in the Northern Territory is close to its relative spending on schools, that supports using schools as a proxy. Alternatively, if it is closer to national average spending, that would support an equal per capita assessment of early childhood education. Of course, Northern Territory policies on early childhood education also affect this analysis.
- 68 The Northern Territory's actual spending on early childhood education averaged 39% more per capita than the national average between 2019–20 to 2022–23. This suggests that just as a large number of remote and/or First Nations students can increase costs for educating students in government schools, it can increase the costs of early childhood education. Therefore, the government schools assessment is likely to be a more reliable proxy for states' needs in early childhood education than an equal per capita approach.
- 69 There is no readily available data on which to determine the state spending needs for preschools. With only \$105 per capita spent on preschools in 2022–23, an assessment is unlikely to be material.
- 70 Noting that this policy area is evolving and spending on early childhood education is expected to grow significantly, the Commission will continue to monitor developments.

## Commission decision

- 71 The Commission will:
- continue to include spending on early childhood education with spending on schools
  - monitor state spending in this area.

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<sup>2</sup> Department of Social Services (DSS), [The Early Years Strategy 2024-2034](#), DSS, Australian Government, 2024, accessed 2 September 2024.

<sup>3</sup> For example, Victorian Government, [Best Start. Best Life reforms](#), Victorian Government, 28 May 2024, accessed 2 September 2024; ACT Education Directorate, [Set up for Success: An Early Childhood Strategy for the ACT](#), ACT Government, 2020, accessed 2 September 2024; NSW Government, [Start Strong program for preschool children](#), NSW Government, 12 March 2024, accessed 2 September 2024.

## GST impacts of method changes

72 The impact on the GST distribution from the method changes is shown in Table 1.

**Table 1** Impact on GST distribution of method changes, schools, 2024-25 to 2025-26

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Government schools model	-35	-31	41	-4	5	9	11	6	71
Non-government schools model	-14	-29	32	15	0	2	-4	-3	49
<b>Total</b>	<b>-50</b>	<b>-60</b>	<b>73</b>	<b>11</b>	<b>5</b>	<b>10</b>	<b>7</b>	<b>3</b>	<b>110</b>
	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc	\$pc
Government schools model	-4	-4	7	-1	3	15	22	23	3
Non-government schools model	-2	-4	6	5	0	3	-8	-10	2
<b>Total</b>	<b>-6</b>	<b>-8</b>	<b>13</b>	<b>4</b>	<b>3</b>	<b>18</b>	<b>14</b>	<b>13</b>	<b>4</b>

Note: Changes to the wage costs assessment are not included. They are shown in the wage costs chapter of *Review Outcomes*.

- 73 The inclusion of variables associated with secondary school students in the government schools model has resulted in changes to the other coefficients. This is because the different drivers of costs measured in the models may differ between secondary and primary schools. For example, secondary schools have lower proportions of First Nations students, on average, than primary schools. A differential assessment of primary and secondary school students ensures that the lower costs for primary students do not mask the higher costs of educating First Nations students. This has resulted in higher assessed GST needs for the Northern Territory.
- 74 Secondary schools have higher proportions of students in the most disadvantaged quartile, on average, than primary schools. This is because parents of younger children tend to have higher levels of education than parents of older children.<sup>4</sup> Parents' education is used as an input to quantify a student's socio-educational advantage level. A differential assessment of primary and secondary school students reduced the cost weight for disadvantaged students, as it was no longer elevated by the higher costs of secondary schooling. This, applied to the ACT's below average proportion of students in the most disadvantaged quartile, resulted in higher assessed GST needs for the ACT.
- 75 In the non-government schools component, there was a minor impact on GST distribution from changes in model specification.

<sup>4</sup> Educational levels have gone up over time. This has led to 2021 census data showing that 31% of parents of secondary school children (who have an average age of 47) have not completed year 12, compared with 25% of parents of primary school children (who have an average age of 41).