PERFORMANCE AUDIT 8 APRIL 2020

Local Schools, Local Decisions: needs-based equity funding

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT

audit office
OF NEW SOUTH WALES

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In accordance with section 38E of the *Public Finance and Audit Act 1983*, I present a report titled **'Local Schools, Local Decisions: needs-based equity funding'.**

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Auditor-General
8 April 2020

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Section one

Local Schools, Local Decisions: needs-based equity funding

Executive summary

The Local Schools, Local Decisions reform was launched in 2012 to give public schools more authority to make local decisions about how best to meet the needs of their students. A major element of the reform was the introduction of a new needs-based school funding model. Core elements of the model address staffing and operational requirements, while needs-based elements reflect the characteristics of schools and students within them. This includes equity funding designed to support students with additional needs. The four categories of equity funding are:

- socio-economic background
- Aboriginal background
- English language proficiency
- low-level adjustment for disability.

Around $900 million in equity funding was allocated in 2019. School principals decide how to use these funds and account for them through their school annual reports. The Department of Education (the department) supports schools in making these choices with tools and systems, guidelines, and good practice examples.

The objective of this audit was to assess the department's support and oversight of school planning and use of needs-based funding under the Local Schools, Local Decisions reform. To address this objective, the audit examined whether:

- effective accountability arrangements have been established
- effective support is provided to schools.

Conclusion

The department has not had adequate oversight of how schools are using needs-based equity funding to improve student outcomes since it was introduced in 2014. While it provides guidance and resources, it has not set measures or targets to describe the outcomes expected of this funding, or explicit requirements for schools to report outcomes from how these funds were used. Consequently, there is no effective mechanism to capture the impact of funding at a school, or state-wide level. The department has recently developed a consistent set of school-level targets to be implemented from 2020. This may help it to better hold schools accountable for progress towards its strategic goal of reducing the impact of disadvantage.

A significant amount of extra funding has been provided to schools over recent years in recognition of the additional learning needs of certain groups of students facing disadvantage. Under the Local Schools, Local Decisions reform, schools were given the ability to make decisions about how best to use the equity funding in combination with their overall school resources to meet their students' needs. However, multiple guidelines provided to schools contain inconsistent advice on how the community should be consulted, how funding could be used, and how impact should be reported. Because of this, it is not clear how schools have used equity funding for the benefit of identified groups. School annual reports we reviewed did not fully account for the equity funding received, nor adequately describe the impact of funding on student outcomes.

To help in the transition to greater local decision-making, the department provided extra support by; establishing peer support for new principals, increasing the number of directors, developing data analysis and financial planning systems, targeted training and showcasing good practice. Multiple roles and areas of the department provide advice to schools in similar areas and this support could be better co-ordinated.

Financial planning systems designed to help schools budget for equity and other funding sources were not fit-for-purpose when originally introduced. Schools reported a lack of trust in their budget figures and so were not fully spending their allocated funding. Since then, the department developed and improved a budgeting tool in consultation with stakeholder and user groups. It provided extra funding for administrative support and one-to-one training to help schools develop their capabilities. Despite this, schools we spoke to reported they were not yet fully confident in using the system and needed ongoing training and support.

1. Key findings

The department has not clearly communicated the objective of equity funding

The department describes the overall purpose of equity funding as 'providing support to address the additional learning needs of students'. Some guidance material directs schools to target equity funding for the benefit of particular student cohorts. Other guidance directs schools to use equity funding to support school strategic directions. In practice, strategic directions do not always align with the additional learning needs of equity groups. This means funding may not be targeted toward improving the educational outcomes of equity groups to meet the intent of the funding.

Further work is needed to account for the impacts of equity funding

Since equity loadings were introduced in 2014, the department had not set performance measures that track progress for all equity groups. It has recently developed a set of targets for its business plan that are reported to its executive. These include targets to improve educational outcomes for Aboriginal students and students from a low socio-economic background. Greater executive oversight of performance measures for these two equity groups is a positive development which should allow for management intervention and greater accountability.

Up to 2020, there were no consistent school-level measures towards the goal of reducing the impact of disadvantage. The department is introducing school-level targets from 2020 but progress is not planned to be publicly reported. At this stage, the only mandatory target for equity groups is to increase Year 12 attainment for Aboriginal students while maintaining their cultural identity.

The total amount of equity funding provided to schools increased by $258 million between 2015 and 2019. To improve accountability for this considerable investment, the department should determine suitable targets for all equity groups at a state and school level that consider a wide range of student outcomes. Performance against these targets should be publicly reported.

Expectations for the level of community consultation are unclear

Decision-making that meets the needs of local communities is a key principle underpinning the Local Schools, Local Decision reform. The range of guidance material produced by the department to support schools does not always set out the extent of community engagement expected when making decisions about the use of equity funding. Guidance ranges from suggesting schools inform the community of decisions to involving them in shared decision-making. The lack of clarity means the level of community consultation may depend on a principal’s interest and capability in engaging with the broader community. Further support on effective strategies could be offered in this area.

School reporting focuses on describing activities funded rather than the impact achieved

Reporting on the expenditure of equity funding and the impact achieved was of variable quality in school annual reports we reviewed. There were significant discrepancies between equity funding received and what schools reported against each equity category in several schools. Few schools described a measurable impact on student outcomes. Most schools we reviewed simply described the range of activities that provided support for the targeted group of students.

Principals report a need for ongoing support for school planning and budgeting

The department offers a range of support to schools in planning and budgeting. This includes guidance materials, programs to strengthen school leadership, additional funding, professional learning, advice, systems and tools. Support through professional learning and advice is spread across different areas of the department and could be better coordinated.

Despite the support provided, there are indications that gaps remain. For example, a 2019 department survey found that 39 per cent of principals reported a need for support in developing the school plan. The same survey found that 32 per cent of principals reported a need for support in managing school resources but 17 per cent of these reported they did not receive any support in this area. Regular principal turnover also means that continued support is required.

Ongoing attention is needed to improve capability with using financial planning tools

Budget management tools introduced in 2014 were not fit-for-purpose, causing significant frustration for schools. Schools we spoke to reported in past years they did not trust the accuracy of figures in these tools, which may have contributed to schools not fully spending their allocations. A new financial planning tool was introduced in 2018 and was accompanied by a one-to-one support session to help schools understand how to use the tool. This training received positive feedback in 2018 and 2019 but some schools we spoke to still report the financial system is overly complex.

Directors, Educational Leadership (DELs) play an important role in ensuring principals comply with the department's accountability requirements. To ensure effective oversight of school financial requirements, DELs need to have sufficient capabilities in reviewing school financial plans. DELs we spoke with were uncertain about their level of capability in financial oversight and how they would effectively discharge their responsibilities in this area. The department has identified a need to build the capability of DELs in financial oversight and has recently established a team to support DELs with regular school monitoring of finances.

2. Recommendations

By April 2021, the Department of Education should:

1. Clarify the objective of equity funding and update guidance material and reporting requirements to consistently reflect this objective.
2. Better integrate equity funding into school planning and reporting by:
    a) supporting schools to set consistent measures and targets for improving educational outcomes for each equity group
    b) providing schools with a four-year projection of funding for each equity group based on past enrolment trends
    c) supporting schools to implement effective strategies for community engagement on the development of the school plan priorities
    d) requiring schools to identify how they plan to use available funding sources to meet the additional learning needs of identified equity groups and the outcomes expected
    e) requiring schools to report on how they have used funding to meet the additional learning needs of identified equity groups and the outcomes that have been achieved.
3. Measure and report on school and student outcomes achieved as a result of equity funding on an ongoing basis.
4. Identify schools that have made significant and sustained improvements for specific equity groups and share better practice approaches for using equity funding.
5. Identify schools that have not met expected growth for equity groups and provide tailored advice and support on effective approaches to lift performance.
6. Strengthen guidance on implementing cost-effective and educationally sound interventions that target the learning needs of equity students. For example, by expanding upon the Centre for Education Statistics and Evaluation's 2015 'What works best' publication and incorporating additional evidence.
7. Better coordinate support provided to schools on community consultation, strategic planning, resource allocation and strategic financial management.
8. Improve training and support to lift the financial management capabilities of school principals, business managers, and Directors, Educational Leadership.

1. Introduction

1.1 Equity funding

Students facing disadvantage achieve lower education outcomes

Students from low socio-economic backgrounds, those with disability, low level proficiency in English and Aboriginal students have on average lower educational outcomes. National research has shown a gap in educational achievement between students of different socio-economic backgrounds grows wider as students move through school. Between Year 3 and Year 9, students from more disadvantaged backgrounds make on average two years less progress than less disadvantaged students.

Results from the Programme for International Student Assessment (PISA) also demonstrate the impact of disadvantage for Australian students in reading, mathematics and science. In 2018, students from the lowest socio-economic quartile performed at a level around three years below students from the highest quartile. Indigenous students performed at a level around two and a half years below non-Indigenous students.

Governments have committed to fund schools based on need

In 2008, Australian Governments agreed common goals for education through the Melbourne Declaration on Educational Goals for Young Australians. Education Ministers endorsed a new Declaration in December 2019, which retained the focus on equity. In this declaration, governments commit to ensuring all education sectors work to:

- 'close the gap' for young Aboriginal and Torres Strait Islander peoples
- provide equality of opportunity for all students at risk of educational disadvantage.

The National Education Reform Agreement between the Commonwealth and states and territories including New South Wales was signed in 2013. This agreement set a desired outcome that 'schooling reduces the educational disadvantage of children, including Aboriginal and Torres Strait Islander children and children from low socio-economic backgrounds'.

The commitment to implement funding arrangements based on need was identified as an important way to minimise disadvantage. The agreement set out principles for funding, including:

- schools are provided a per student amount representing the resources required to support a student with minimal educational disadvantage to achieve expected educational outcomes
- schools are provided with additional funding in the form of 'loadings' to categories of educational need where that additional funding is required to support student achievement
- funding formulae for calculating the level of funding each school receives are transparent and publicly available.

The National School Reform Agreement (2018) reaffirmed the importance of equity in education. The agreement set out outcomes and sub-outcomes to track progress for priority equity cohorts in the areas of: student attendance, National Assessment Program – Literacy and Numeracy (NAPLAN) (reducing the proportion of students in the bottom two bands and the increasing proportion in the top two bands), international testing (reducing the gap in achievement between students from various socio-economic backgrounds) and year 12 completion.

The department has reflected these national aims in its two most recent strategic plans:

- 'we'll have high expectations for all and focus on closing gaps in achievement in areas of disadvantage' (2012–17 strategic plan priority)
- 'our education system reduces the impact of disadvantage' (2018–22 strategic plan goal).

Local Schools, Local Decisions reform

The Local Schools, Local Decisions reform was launched in 2012 to give New South Wales public schools more authority to make local decisions about how best to meet the needs of their students. The reform included 37 different initiatives across five areas:

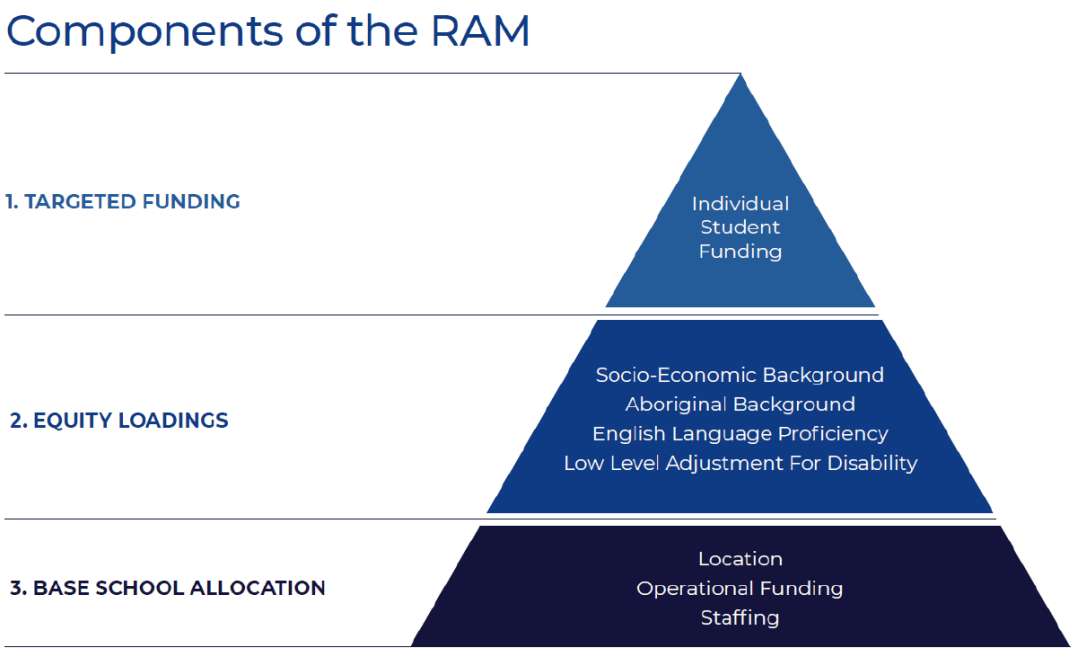
1. managing resources – to enable a fairer and more transparent funding model (the Resource Allocation Model) that drives flexible and responsive decision-making at the local level
2. staff in our schools – to provide greater support to increase teacher quality, performance management and increased flexibility over staff mix
3. working locally – to support schools to strengthen consultation with local communities, working in partnership to make a positive contribution to student learning
4. reducing red tape – to allow schools to focus on the priority of teaching and learning
5. making decisions – to enable school to respond directly to the learning needs of their students with local solutions.

Reforms were progressively introduced from 2012, with most elements in place by the end of 2016. A key element of the reform was the introduction of a new needs-based school funding model.

The Resource Allocation Model

To receive national funding, the Australian Government requires system authorities to have a needs-based funding arrangement (subsection 78(3) of the *Australian Education Act 2013*). In New South Wales, this was done through the development of a new resource allocation model (RAM) to distribute funding to public schools. The model is designed to distribute funding according to the complexities of the student population and includes four equity loadings (Exhibit 1).

Exhibit 1: The Resource Allocation Model



Source: Department of Education (2019).

In 2019, around 2,200 public schools received approximately $907 million in equity funding. The four equity loadings are described below in Exhibit 2.

Exhibit 2: Equity funding provided to New South Wales public schools, 2019

Equity loading	Description	Students supported	Amount $m
Socio-economic background	Supports schools to meet the additional learning needs of students from low socio-economic backgrounds. The loading is calculated based on a combination of student and school need using the Family Occupation and Education Index[1].	384,000	398.3
Low level adjustment for disability	Supports students in regular classes who have additional learning and support needs. The loading is calculated using the Student Learning Need Index[2] based on NAPLAN data.	110,000	288.5
English language proficiency	Supports students learning English as an additional language or dialect who are migrants, refugees or humanitarian entrants or are the children of migrants, refugees or humanitarian entrants. The loading is calculated using an assessment of English language proficiency for individual students.	179,000	133.1
Aboriginal background	Supports schools to meet the additional learning needs of Aboriginal students. The loading is based on the number and percentage of Aboriginal students in the school.	63,000	87.2

Note:

1 The Family Occupation and Education Index is a school level index of educational disadvantage related to socio-economic background. It is constructed from parental education and occupation information collected from student enrolment forms.

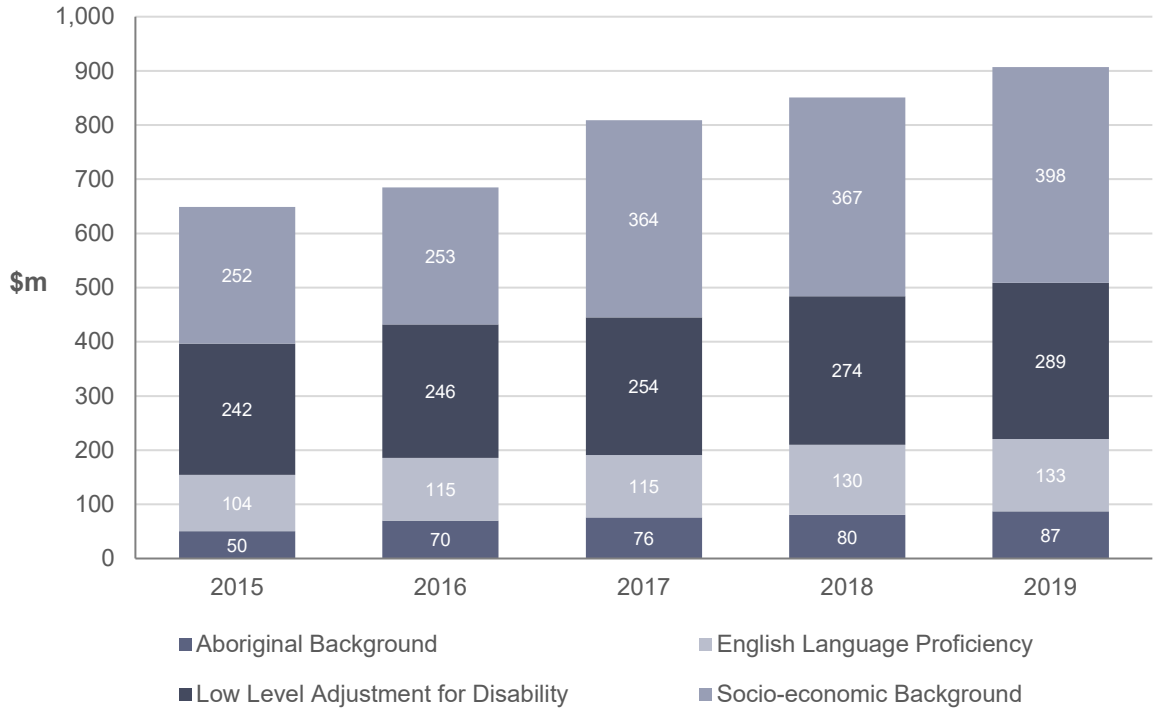
2 The Student Learning Need Index uses literacy and numeracy data from the most recent three years of longitudinal NAPLAN data. It is constructed around the number of incidents of students in mainstream classes in the school who perform in the bottom ten per cent in literacy or numeracy. A student may be counted as two incidents if they perform in the bottom ten per cent for both literacy and numeracy.

3 The distribution of funding between schools is not uniform. A small proportion of schools with very high levels of need receive relatively large amounts of equity funding. This is because the formulae for low socio-economic background and Aboriginal background loadings recognise the concentration of disadvantage. A large proportion of schools with lower levels of disadvantage receive a relatively smaller amount of funding.

Source: Department of Education (2019).

The amount of equity funding provided to schools in 2019 was $258 million greater than in 2015 (Exhibit 3). The growth in equity funding (around 8.7 per cent each year) has outstripped the growth in total student numbers (around 1.1 per cent each year). As a comparison, the increase in funding between 2015 and 2019 is equivalent to employing around 8,500 teachers.

Exhibit 3: Growth in equity funding, 2015 to 2019



Source: Department of Education (2019).

1.2 School planning and reporting requirements

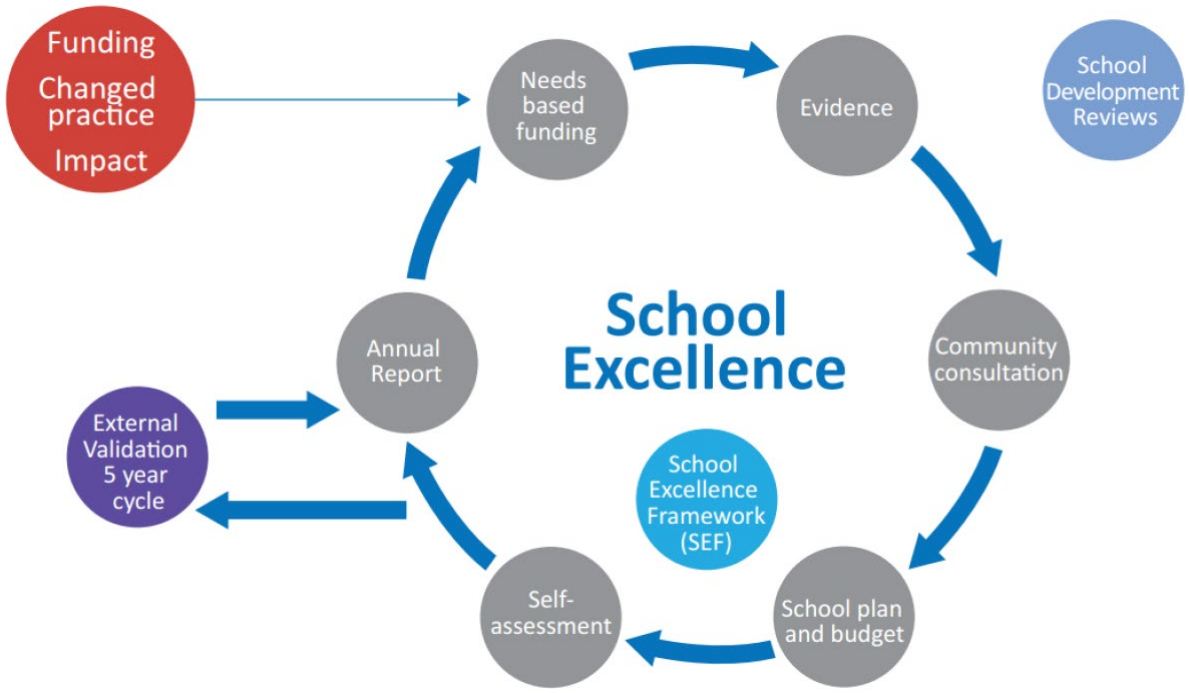
The school plan and annual report

Schools publicly account for the use of equity funding through a three-year school plan and annual report (Exhibit 4). They are required to develop a school plan in consultation with their community. The school plan identifies three strategic directions and a set of improvement measures for each direction. Schools track progress towards achieving the strategic directions throughout the year and report progress in the annual report. The annual report has a section for schools to report on resources used for each equity funding category and the impact achieved.

In addition, schools undertake a self-assessment of practice against the School Excellence Framework and publish these findings in the annual report. Over a five-year cycle, schools have their self-assessment validated by an external panel.

The Director, Educational Leadership (DEL) endorses the published school plan and monitors school plan implementation for compliance with legislative and policy requirements, including the use of equity and other targeted funding. At any point of the cycle, the DEL may initiate a school development review if significant concerns with school performance are identified.

Exhibit 4: School planning and reporting cycle for 2018 to 2020



Source: Department of Education (2017).

School planning and budgeting systems

Schools use two systems to develop and report on their school plan, and budget for expenditure.

School Planning and Reporting Online is a system for schools to input their strategic priorities, plan milestones and report against them. The system enables information from the school plan and self-assessment processes to flow directly into the annual report.

The Enterprise Financial Planning Tool helps schools to plan staffing and operational expenses when they have received their School Budget Allocation Report. The tool provides schools with the ability to:

- track expenditure against plan
- budget for expected revenue
- detect early warning signs if actuals are not happening as planned
- take preventative measures for any emerging financial risks.

2. Accountability for funding

2.1 Roles and expectations

Principals are responsible for effective and efficient management of equity funding

Multiple documents outline the financial management responsibilities of principals. These include the Leading and Managing the School Policy (2016), Principal Role Description (2018), and Australian Professional Standard for Principals (updated 2019). These state that principals are accountable for managing school resources effectively and efficiently. For example, the Principal Role Description (2018) reinforces that:

- a goal of the education system is to reduce the impact of disadvantage
- principals are responsible for the proper, efficient, economic and equitable management of the school to maximise the progress and achievement of all students.

Directors, Educational Leadership (DEL) play a key role in overseeing the use of equity funding within schools and ensuring that school plans are implemented as intended. Each DEL has oversight of school budgets across a network of around 20 schools but expectations for how DELs should exercise this oversight are not clear. Each principal is responsible to the DEL for the effective management and expenditure of the school budget.

There is no public reporting on how the department is reducing the impact of disadvantage

The department's 2018–2022 Strategic Plan identifies 'equity' as a core value and 'reducing the impact of disadvantage' as one of ten goals. Performance measures for the Strategic Plan do not fully address this goal as they concentrate on increasing the proportion of Aboriginal students and regional and remote students in the top two NAPLAN bands. There are no separate performance measures identified for other groups identified as facing educational disadvantage.

In mid-2019, the department set additional targets to report to its executive. These include targets for Aboriginal and low socio-economic status students to be achieved by 2022:

- increase the proportion of Aboriginal students above the national minimum standard for reading and numeracy from an average of 55.6 per cent to an average of 65.5 per cent
- reduce the gap between the highest and lowest socio-economic status students above the national minimum standard for reading and numeracy from an average of 31.7 per cent to 26.8 per cent.

To be accountable for progress against its goals, the department should publicly report the scale of the achievement gap in educational outcomes for all equity groups and its performance in reducing the scale of this gap over time. The department has previously reported on measures to close the gap in educational attainment for Aboriginal students in its annual reports.

The purpose and expected outcomes of equity funding are not clearly communicated

The department has not clearly articulated the purpose of providing equity funding to schools. Without a shared understanding of the purpose of funding and the learning outcomes it aims to achieve, it is hard to know if initiatives are on track to achieve their intended purposes. This makes it difficult to hold schools and the department accountable for the substantial resources that have been invested in schools through funding based on educational disadvantage.

Some guidelines define the purpose of equity funding in broad terms. For example, that 'equity funds are to be used to support school strategic directions'. Other documents suggest equity funding should be used to address the needs of specific equity groups. Strategic directions in school plans reflect a school's priorities for improvement and do not always align with the needs of specific equity groups. None of the 12 school plans we examined targeted a school strategic direction at an equity group or at addressing the impact of disadvantage overall.

Examples of advice from the department that alternates between a focus on a particular equity group and a focus on school-level initiatives include:

- 'funds under the Aboriginal Background equity loading are provided to schools to **ensure that Aboriginal student educational outcomes** match or better those of the broader student population'
- 'school leadership teams may allocate resources from any of the key funding initiatives to **one or more of the strategic directions**'
- 'principals are able to combine and **use their school's total resources flexibly** to respond to the additional learning needs of all students in the school, **whatever the cause**'.

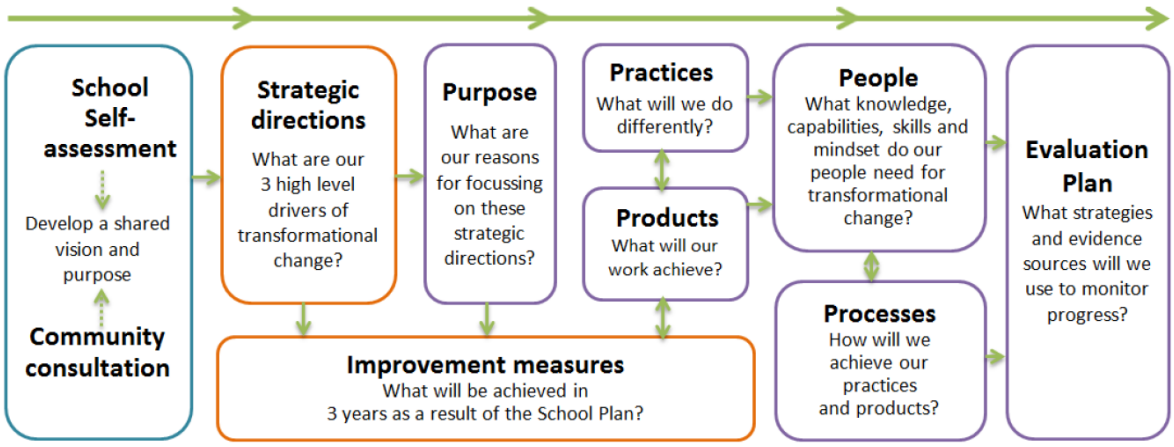
Principals in the schools we reviewed, and their DELs, reported mixed views on whether equity funding should be specifically used to support the needs of individual equity groups or spent on whole-of-school programs. Across the schools we examined, English language proficiency and low-level adjustment for disability funding was commonly reported to be spent on specialist teaching and support staff to assist specific groups of students. Funding for Aboriginal students and students from low socio-economic backgrounds was reported to be spent on a combination of support for specific groups of students and whole-of-school programs.

2.2 School planning and community input

Requirements for tracking use of equity funding in school planning were unclear

The school planning process for 2018 to 20 was overly complex (Exhibit 5). Schools were asked to develop multi-year strategies while only being provided with yearly projections of available funding. Because of this, there was no requirement for schools to explicitly identify how available resources (including equity funding) would be used to support the strategic directions of the school. The department has identified the need to streamline school planning and has commenced work to address some of these issues in time for the next planning cycle.

Exhibit 5: School planning requirements 2018 to 2020



Source: Department of Education (2017).

For 2018 to 20, schools had to develop milestones to monitor progress for each strategic direction and review these every five weeks. Departmental guidelines required schools to identify resources used for each milestone activity to demonstrate effective and efficient use of funding. Principals we interviewed told us the milestone process helped keep them on track to implement their school plan. However, reporting on milestones every five weeks was too frequent and the resources section of the milestone process was tokenistic. DELs we interviewed told us the quality of milestones was variable but improving over time.

Guidance does not detail expected levels of community engagement in school planning

Decision-making that meets the needs of local communities is a key principle underpinning the Local Schools, Local Decision reform. The New South Wales Education Minister has set a public expectation 'that Principals, in partnership with their local school communities, are best placed to decide how to use their school's resources'. That said, the expected level of community involvement is not clearly explained in guidance material produced by the department.

Unclear expectations for the level of consultation means there can be significant differences in opportunities for community input across schools. For example, guidance on school planning focuses on engaging the community to determine high-level strategic directions only. Other guidance is more specific, suggesting principals ‘consult’ with parents and carers to determine the best way to use equity funds to support the learning needs of students in their schools.

The School Excellence Framework describes high quality practice across learning, teaching and leading. This framework refers to community engagement in the use of student progress and achievement data, seeking feedback on school performance, and engaging the community in the development of the school plan. The references do not provide any standards for community engagement or guidance on how to implement effective approaches.

In 2016, the department’s communications and engagement section developed and promoted a separate framework that described good practice in community engagement. The Excellence in School Customer Framework was used as the basis for an online feedback tool that could be used by schools to inform their school plans. Maintaining separate frameworks over similar areas can set different expectations and lead to unnecessary confusion.

Schools report difficulty engaging with communities on school planning in disadvantaged areas

Schools in low socio-economic status areas can find it difficult to successfully engage parents in school planning. A 2014 evaluation report of the Low Socioeconomic Status National Partnership in New South Wales identified factors that hinder effective engagement including: language and cultural barriers, low parental interest, parents' ambivalence towards the value of education, parents' time constraints and parents' level of education.

Several principals we interviewed reported low attendance at consultation events, citing similar reasons to the evaluation report. To counter these barriers, some schools had identified community engagement as a strategic priority and allocated equity funding to improve consultation.

DELs supported the views of principals but noted that school performance in this area was variable and that there was significant discretion for the principal to choose the level of engagement. DELs advised that to successfully engage communities, schools need to extend beyond basic methods like surveys and consulting with the Parents and Citizens association. Setting clear expectations, providing professional support and sharing best practice examples of successful engagement in school planning in disadvantaged areas could help principals in this area.

2.3 Monitoring the impact of funding

Reporting of how equity funding is spent is not always complete

Schools are required to report on how they spent equity funding allocated to them in the school annual report. The amount of equity funding provided to the school is automatically populated in the report and schools manually enter how much was spent. Departmental guidance consistently emphasises that equity funding should be spent in the year allocated.

Information in the 12 school annual reports we reviewed did not fully reconcile the equity funding received and what it was spent on. Of the 12 schools, three appeared to report the amount of funding received instead of the amount spent. In other cases, it was unclear what the reported figure under each equity funding category referred to or why reported spending was significantly less than the total funding received. Exhibit 6 shows examples of incomplete reporting.

Exhibit 6: Examples of incomplete reporting on equity spending in school annual reports

Equity funding category	Amount received	Reported spending
Aboriginal background	$177,704	Aboriginal Education Officer (AEO) (amount not specified)
Socio-economic background	$174,996	$8,300
English language proficiency	$270,930	Approximately $20,000 was invested in additional learning support and literacy for ESL students
Low level adjustment for disability	$90,728	$38,671

Source: Audit Office analysis of 12 school annual reports selected for audit, examples shown here are taken from four different schools.

One school we reviewed received around $300,000 in equity funding but did not report any information on how much funding was spent against each category, or what funding was spent on.

Noting that we did not select a representative sample, each of the 12 schools we reviewed reported carrying forward unspent funding from 2018 into 2019. In 2018, this was an average of $696,400 or 12.4 per cent of total revenue in these schools. The amount carried forward increased in 10 of the 12 schools between 2017 and 2018. Several schools we interviewed reported they did not fully spend their available funding in past years due to difficulty filling staffing positions and mistrust in the accuracy of financial information. The department should continue to investigate the reasons for underspending and help schools identify areas where equity funding can be spent effectively.

The Multicultural Education section of the department requires schools to separately report on the use of English language proficiency funding through an annual survey. This survey asks schools to report on whether they have used funding for: additional teacher support, resources and materials, professional learning, bilingual support or ‘other’. The survey does not show how much funding is allocated to each category and duplicates information already required in the school annual report.

Recent changes to how schools record expenditure in the financial system mean that the department will lose the ability to accurately track school expenditure against each equity funding category. Recording expenditure against each category is now optional. This prevents the department from being able to verify information on equity spending in school annual reports.

There is a lack of focus on financial capability amongst staff tasked with financial oversight of school expenditure

A key accountability of the DEL, as set in their role descriptions, is to 'review the evidence to ensure principals are meeting their key accountabilities and provide feedback to guide continuous improvement'. As mentioned in section 2.1, a key accountability of principals is the efficient and economic management of the school. To ensure effective oversight, DELs need to have a thorough understanding of the financial management accountabilities of the principal. They also require adequate capability and time to review evidence, identify issues and provide meaningful feedback.

The DEL role description identifies 'finance' as a focus capability. Placed at the 'advanced' level, this sets an expectation that DELs have a thorough understanding of financial terminology, policies and processes for planning, budget preparation and management. Despite being a focus capability, the role description does not identify financial oversight as a key accountability of the role.

DELs we interviewed recognised that oversight of school finances was part of their role, but felt it was not a significant part or that expectations were unclear. Their lower emphasis on financial oversight is consistent with the role description. DELs we spoke to told us they relied on principals to accurately report their use of equity funding rather than directly verifying information. Most did not use the department's tool to monitor school budget positions, citing lack of training or time to do this. Schools we interviewed generally reported their DEL involvement in reviewing finances was limited to around once per term as part of a broader conversation about the school.

The department has recently established a new finance team to support DELs in their role. The team proposes to build DEL capability in finances by identifying what a DEL with advanced financial capabilities 'looks like', providing specialised training, regularly monitoring school financial performance, identifying schools of concern and referring them to their DEL, and accompanying DELs on school visits to review school finances as required.

Reporting on school improvement measures for equity groups is insufficient to provide insight on whether equity funding is achieving impact

Schools are required to develop improvement measures in their school plans against which the impact of the strategic directions will be monitored. Progress towards the improvement measures is then reported in the annual report. Consistent with the intent of this approach, good improvement measures would highlight areas that require improvement in each school and help them focus on the initiatives that will generate the desired improvement.

The quality of improvement measures in the 12 school plans we reviewed was variable. We found examples that were not measurable because they did not specify a metric or baseline against which changes over time would be monitored. Only four of the 12 schools included improvement measures for a specific equity group. Without clarity on the purpose of equity funding, as well as clear outcome measures for students who have additional needs, it is not possible to monitor whether the significant level of investment in equity funding is achieving results.

The department's guidance on constructing improvement measures for specific equity groups is inconsistent. For example, the Equity Support Package states that schools receiving equity funding must explicitly state in their school plan the improvement measures related to those student groups. Whereas the School Excellence Implementation Guidelines - School Planning only mandate that schools include an improvement measure related to numeracy and literacy.

School annual reports focus on activities rather than outcomes or impacts of equity funding

The key mechanism to account for the use of equity funding is the school annual report. To enable this, schools should report on the impact of activities supported by this funding. Departmental guidance to schools is not clear enough that they are expected to report on the impact of activities, rather than describing the activity. While a table in the annual report is headed 'impact achieved this year', guidance directs schools to report on 'how these resources have been used to address the additional learning needs' of students. Reporting on impacts is important to demonstrate that the activities chosen were effective in improving student outcomes.

Most of the 12 school annual reports we reviewed reported on activities only and not the impact of activities on educational outcomes. Only one school we reviewed reported quantitative data for an equity funding category but this was not done with reference to a baseline or target. Examples of inadequate activity-based reporting include:

- 'support staff employed to assist identified students in class'
- 'Aboriginal Education Team meets regularly and shares resources with staff and students'.

Some schools spend equity funding on strategies that are known to be poor value for money, reducing the impact on student outcomes

The Centre for Education Statistics and Evaluation directs schools to the Evidence for Learning toolkit to identify and compare effective educational interventions. Employing teaching assistants is described in the toolkit as a low-impact, high-cost intervention. The toolkit cites research that found students who are low attaining or identified as having special educational needs can perform worse in classes with teaching assistants. This is attributed to teaching assistants not having formal qualifications or training to undertake complex tasks required to effectively work with special needs students (e.g., curriculum modification and differentiation).

Several schools we reviewed used equity funding to employ additional School Learning Support Officers (teaching assistants). Across the state, the number of School Learning Support Officers increased by 18 per cent between 2012 and 2017 while the number of teachers remained stable. This additional number of School Learning Support Officers heightens the importance of ensuring they are effective in improving outcomes.

The Evidence for Learning toolkit describes reducing class sizes as a high-cost intervention that does not show large or clear effects until class size is reduced substantially. A 2017 Centre for Education Statistics and Evaluation report on class sizes in primary schools found that schools with the highest level of educational disadvantage had lower average class sizes (21.6 students per class) compared to schools with the lowest level of educational disadvantage (24.9 students per class). The report attributed the difference to disadvantaged schools using equity funding to employ additional classroom teachers.

2.4 Intervening when schools do not improve results

Mechanisms to intervene when schools fail to improve outcomes are infrequently used

The department has two mechanisms to intervene when schools fail to improve outcomes but these are used infrequently and do not focus on the use of equity funding. School development reviews examine issues affecting a school's performance and develop strategies to address these issues, which are then required to be implemented. Principal Improvement Programs aim to address underperformance against the general selection criteria for principal positions. Only three school development reviews and seven improvement programs were completed between 2015 and 2019 out of a total population of around 2,200 schools.

DELs are responsible for managing performance of schools in their networks. School development reviews and principal improvement programs are both initiated by the DEL. The department increased the number of DELs in 2018, which has given them more time to manage school performance. Data analysis systems help DELs compare performance of their schools with statistically similar schools but rely on the DEL to determine acceptable levels of performance before intervening.

The introduction of new school-level targets from 2020 could help DELs more clearly identify when a school requires targeted interventions or support to improve. Departmental guidance emphasises that there will be no negative funding implications for schools not meeting targets. Instead, schools will be offered more support from their DEL, a Principal, School Leadership or other systems support.

The 'Bump It Up' strategy provides a recent example where the department targeted interventions to schools identified as having the greatest capacity to improve student performance in literacy and numeracy. The strategy provided schools with a standardised assessment tool and used the existing school planning and reporting process to monitor progress through the DEL. The department's preliminary findings indicate these schools have been successful in lifting student outcomes, with minimal additional resources provided.

New school-level targets do not consider all equity groups and will not be publicly reported

For the 2020 school year and onwards, the department is working with schools to set performance targets across five areas: reading; numeracy; attendance; wellbeing and Year 12 attainment. The department advised that progress against school level targets is not planned to be publicly reported. There is only one mandatory target for equity groups (Year 12 attainment for Aboriginal students). There are no mandatory targets for the remaining three equity funding categories - low socio-economic background, low-level disability adjustment, or English as an Additional Language or Dialect.

Performance indicators and targets are a common accountability mechanism. If well designed, the new targets could help schools compare their progress relative to similar schools. Creating some degree of standardisation could also ensure greater consistency in how DELs approach school improvement. DELs have been supported to set targets in consultation with schools with training sessions, an online target setting tool, conversation guide and a detailed data appendix.

To help reduce the gap in student achievement, there may be benefits in defining and reporting on explicit outcome measures for students from equity cohorts. This will make it easier to assess school's progress in addressing the learning needs of those student groups. The New South Wales Government has already committed to tracking this at a national level through the 2018 National School Reform Agreement. This agreement includes an outcome that 'academic achievement improves for all students, including priority equity cohorts' and identifies specific measures for equity cohorts.

Setting targets using measures of growth could help schools focus on lifting the performance of students from equity cohorts. These measures recognise different starting points for students and are consistent with the department's strategic goal that 'every student … improves every year'.

The current school review process is not sufficient to identify school underperformance

Because of the self-selection of evidence, infrequency of validation, and lack of consequences the School Excellence Framework (SEF) external validation process is not an effective mechanism to identify underperformance in lifting achievement of equity groups. Each school participates in an external validation against the SEF every five years. To do this they prepare a set of evidence for an external panel made up of a Principal, School Leadership and peer principal. The panel considers the evidence prepared by the school and reports back on their assessment of performance against the elements of the SEF. The process is not an inspection and relies on the evidence selected by the school.

One of the 14 SEF elements considers student performance measures for equity groups. It states that 'in schools that excel, students consistently perform at high levels on external and internal school performance measures and equity gaps are closing'. The highest level of school performance expects that 'progress and achievement of equity groups within a school is equivalent to the progress and achievement of all students in the school'. Given the significant disadvantages equity groups face, this is not realistic for most schools and the SEF does not describe any intermediate levels of performance. Of the ten school evidence sets we reviewed, only one identified and commented on the differences in student performance between equity groups.

3. Support for schools

3.1 Planning to strengthen school capabilities

The School Leadership Strategy planned actions to uplift capabilities of principals

In 2015, the department recognised additional support would be required as the role of the principal was given more authority to make decisions and faced greater accountability for those decisions. The department is actively working to strengthen principal capability through the School Leadership Strategy. The 2015 Strategy aimed to strengthen principals' capability by:

- requiring new principals to complete an 18-module credential
- appointing experienced principals to coach new principals during their first year in the role
- revising the Leading and Managing the School policy to set a clear accountability framework.

The Strategy was updated in 2017 in response to a study investigating principal workload. This study found that the main barriers to managing principal workload were limited training and preparation for leadership roles, insufficient administrative support and lack of access to quality support services, tools and systems. Further actions were set in the new strategy, including:

- establishing a Leadership Institute to provide school leaders with access to relevant development programs, including a 12-month program for aspiring principals
- extending coaching support for new principals from one to two years and having this done by Principals, School Leadership (PSLs)
- developing a new Principal role description to clarify core responsibilities and key outcomes
- increasing the number of Directors, Educational Leadership (DELs) and refocusing their role to provide greater support to principals
- providing $50.0 million in flexible funding to assist principals with administrative support.

Further planning to improve school capabilities is considered in executive priority projects

Further planning to strengthen school capabilities in strategic resource management is being undertaken through executive priority projects. The department has established five executive priorities to achieve the goals of its strategic plan. Each executive priority is owned and led by a Deputy Secretary, which helps drive focus and accountability for achieving the department's goals.

The ‘improving systems support for schools’ priority has a workstream to increase schools’ confidence in their financial position. Planned actions include one-to-one budget support for the 2020 budget year, rationalisation of budget adjustments, and deploying a new version of the Enterprise Financial Planning Tool. The need to continue one-to-one support is consistent with feedback from schools we reviewed.

The 'strengthen school leadership' priority aims to build on the School Leadership Strategy and School Leadership Institute to improve how the department trains, supports and equips principals with the capabilities to improve school performance. This includes plans to improve merit selection processes, induction, professional development and ongoing performance.

As part of the priority to ‘improve school and student outcomes’, the Centre for Education Statistics and Evaluation has planned a new project to build the capability of middle leaders in schools in data, evidence and evaluation. The project will be implemented in 2020 and is targeted at around 400 schools with greatest needs. The project recognises limitations with previous methods of responding to ad hoc requests and targeting professional learning at school principals, which does not always cascade down to those who work directly with students.

3.2 Resources to support schools

Schools can access a range of support materials for relevant systems and tools

The department has developed training material and guidance to assist schools with using School Planning and Reporting Online, the Enterprise Financial Planning Tool and Scout. Support is available through: professional learning workshops; online training modules; webinars and videos; quick reference guides; frequently asked questions; coaching; technical support teams; and one on one support.

The Schools Strategic Resourcing Unit helps schools to understand the School Budget Allocation Report and use the Enterprise Financial Planning Tool to plan, monitor and report on financial resources in their school. The unit has offered professional learning for principals, business managers and school administration managers on strategic financial management since 2014. These include courses such as:

- Core Financial Literacy
- Developing and Managing the Total School Budget
- Strategic Resource Management: Delivered through the School Budget Allocation Report and Resource Allocation Model
- School Planning, Budgeting and Resourcing for New and Relieving Principals.

Support resources for equity cohorts could be updated and better coordinated

Different divisions across the department offer advice for addressing the needs of specific equity groups. For example, the Multicultural Education division offers resources and guidance on curriculum, planning and evaluation. Additional guidance is particularly important in this area as only 61 per cent of English as an Additional Language or Dialect (EAL/D) teachers have the required level of qualification, according to a department survey conducted in 2019. The level of guidance and links to evidence-based strategies to help principals make decisions for using equity funding are not consistent across the four equity groups.

The Centre for Education Statistics and Evaluation plays a key role in sharing evidence-based practices on how to improve educational outcomes. In 2015, it published a guide on seven practices shown to improve student educational outcomes. This guide was well known and held in high regard in the schools we reviewed. The guide states that quality teaching practices tend to benefit students regardless of their background. Building on the guide with more up-to-date research, data could help show the relative costs and impacts of strategies on equity groups. To maximise impact, the guide should be updated in time to inform new school plans for 2021.

The effectiveness of strategies in lifting student outcomes depends on how well they are implemented. More support could be offered to schools on effective implementation. As an example, the department refers schools to an external guide on 'Making the best use of Teaching Assistants'. This guide recommends seven strategies to more effectively use teaching assistants and is accompanied by checklists and templates. This is relevant as employing teaching assistants is a common way of using equity funding, particularly low-level adjustment for disability funding.

Two of our recent reports examining the Department of Education have also identified a lack of system co-ordination and effective knowledge of what is working at a local level. These included:

- Ensuring teaching quality in New South Wales public schools (2019) – found there was no central oversight of teaching quality through the Performance and Development Framework. The report also found a lack of effective monitoring of the $224 million Quality Teaching, Successful Students program.
- Wellbeing of secondary school students (2019) – found the department had implemented a range of programs aimed at supporting student wellbeing but the outcomes of this work had not been measured or reported at a system level. The report also found evidence of overburdening in the number of tools, online systems for information collection and duplication in reporting on student wellbeing initiatives.

Support for planning and budgeting is split across different areas of the department

The delineation of responsibilities for supporting schools with strategic planning and budgeting is not always clear. Support for various tasks is available through the School Strategic Resourcing Support team, the DEL, PSL, Centre for Education Statistics and Evaluation, School Services and Finance teams. Provision of one-to-one support on using the Enterprise Financial Planning Tool is a good example of a planned approach to collaboration between the finance and School Strategic Resourcing Support teams that received positive feedback from schools. Planned collaborative approaches help ensure that schools receive consistent advice.

Support teams mostly operate in response to requests, reacting to issues after they have already happened. A disadvantage of this approach is that it may not target resources to the areas of greatest need. The DEL, as the line manager of principals, has insight into each school in their network and can co-ordinate support for individual schools or groups of schools.

Several DELs we interviewed told us that since the number of DELs expanded, there is now greater overlap between what they and PSLs do to support schools. They also noted part of their role is to act as an interface between schools and the department and that schools would not know all the mechanisms in place to support them. DELs in regional areas with highly dispersed networks of schools reported greater difficulty in accessing face-to-face central support.

Mandatory professional learning in strategic financial management focuses on processes

The department requires new principals to complete an online learning module in strategic financial management. However, the module has low expectations. The desired outcome is that 'candidates will be familiar with the responsibilities of the principal and some of the resources available to support school financial management practices'. Additionally, principals have been unable to access the course material since April 2018 because it has been under review.

The module is one of 19 that make up the Public School Leadership and Management Credential. The credential was introduced in 2015 to give new principals a set of consistent skills, knowledge and understanding required to effectively lead and manage their schools. Candidates are required to achieve 100 per cent in the assessment for each module to be awarded the credential. The assessment is open-book and candidates may have multiple attempts at the assessment, which reduces its effectiveness as a tool to genuinely assess capabilities.

There are indicators that some principals desire further support in strategic financial management. A department survey in 2019 found that 32 per cent of principals reported a need for support in managing school resources. Of these principals, 17 per cent reported they did not receive any support in this area.

Schools continue to report new financial planning systems as being overly complex

Over the past few years there have been several changes to systems that support schools with financial planning and budgeting. In 2018, the Enterprise Financial Planning Tool replaced a previous tool which was not fit-for-purpose. The department has provided yearly two-hour one-to-one support sessions to schools to help them understand and use the new tool. Schools reported positive feedback on the sessions and a desire for longer and more frequent sessions.

Principals and School Administration Managers we spoke with reported ongoing frustration with the finance system. They described the system as being: 'not intuitive', 'not user-friendly', 'designed for accountants', 'overwhelmingly detailed', 'time consuming' and 'intensively complex'. While they reported their confidence was improving somewhat, they also recognised a need for ongoing training. One principal described a need to be constantly using the system to understand it and was concerned about what they would do if their School Administration Manager took extended leave.

3.3 Assessing the relevance and effectiveness of support

Schools report positive feedback on the department's training and support sessions

The Centre for Education Statistics and Evaluation surveys principals each year to get feedback on departmental programs and strategies. In 2019, this included questions on support with the school planning process. 39 per cent of principals reported a need for support in developing the school plan, while 55 per cent reported a need for support in setting milestones and monitoring progress against the plan. 68 per cent of respondents received support from a PSL in developing their school plan and 63 per cent received support from a PSL in setting school milestones and monitoring progress. Most principals reported the PSL was quite or very helpful in their support.

The department regularly receives positive feedback on support provided to schools, for example:

- around 2,500 survey responses rated one-to-one support sessions on using the Enterprise Financial Planning Tool 4.86 out of 5 as being beneficial in 2018, with similarly positive responses in 2019
- around 96 per cent of survey responses to a course on school planning, budgeting and resourcing for new and relieving principals and aspiring leaders rated the course as 'very' or 'extremely' beneficial, with around a quarter of participants requesting further support
- around 96 per cent of survey responses gave positive feedback of the 'Evaluation Essentials for School Leadership' workshop
- around 89 per cent of survey responses agreed that their data literacy skills had improved as a result of attending the 'Using data with confidence in education' workshop.

Evaluations are conducted on support offered through larger strategies and initiatives

In 2018, the Centre for Education Statistics and Evaluation released an evaluation on the Public School Leadership and Management Credential and the Principal, School Leadership initiative. The evaluation found that principals considered the credential to be a valuable resource that provided useful information. It also found that PSLs were supporting principals in numerous areas, but mostly in relation to the school plan. Principals generally reported PSL support as being very helpful. The evaluation questioned the clarity of the PSL role, finding that PSLs were providing assistance in areas not specified in their role and that both PSLs and DELs gave advice on school planning. As most data was self-reported, the report recommended revisiting the evaluation questions to determine the ongoing impact of the initiatives on the capabilities, knowledge and confidence of principals.

The Centre for Education Statistics and Evaluation is also evaluating the Local Schools, Local Decisions reform with a final report due in 2020. An interim report released in 2018 considered the support structures needed by school leaders to make effective school management decisions. The evaluation found that principals wanted:

- better administrative support with the budgeting, planning and business management aspects of the reform (e.g. from a business manager, mentor or coach)
- functional tools to manage their responsibilities along with face-to-face training
- improved communication on how to use systems and tools, what principals need to do to meet accountability requirements, and effective and creative ways to use needs-based equity funding.

Section two

Appendices

Appendix one – Response from agency

NSW GOVERNMENT Education

Ms Margaret Crawford
Auditor-General for New South Wales

DGL20/129

Email: mail@audit.nsw.gov.au

Dear Ms Crawford

Thank you for your letter of 6 March 2020, providing a copy of the *Performance Audit – Local Schools, Local Decisions: needs-based equity funding* final report and seeking a response from the Department of Education (your reference: D2003105).

I am pleased to provide you with an Education Cluster response to the report.

The Department has prepared a response which supports all eight (8) recommendations. The response is reflected in the attached table with detailed commentary linked to each recommendation.

I want to take this opportunity to express my appreciation for the input you and your office have added in supporting this important body of work. Further to this, I would like to acknowledge officers from across the Education Cluster who have contributed to this activity.

Yours sincerely

Mark Scott AO
SECRETARY
DEPARTMENT OF EDUCATION
3 April 2020

NSW Department of Education
105 Phillip Street Parramatta NSW 2150 GPO Box 33 Sydney NSW 2001 1300 679 332 education.nsw.gov.au

Department of Education response to the
NSW Auditor-General's Performance Audit – Local Schools, Local Decisions: needs-based equity funding final report

In 2020, the NSW Government will reform Local Schools, Local Decisions to ensure the right balance between accountability, intervention and support for schools; with reforms due to come into effect in 2021. These reforms will look to better ensure that evidence based best practice teaching methods are used in the classroom, and that money is distributed through the Resource Allocation Methodology more effectively. Implementation of the reforms to Local Schools Local Decisions will also take into account the findings of the CESE Review into Local Schools, Local Decisions Evaluation -due mid 2020.

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
1. Clarify the objective of equity funding and update guidance material and reporting requirements to consistently reflect this objective.	L&HP (SSR)	EFG (Director, National)	Supported.	The Department welcomes the opportunity to clarify this objective through the implementation of meaningful and manageable policy for schools. It is recognised that equity funding is life changing for students in our schools. The Department will provide stronger direction through a clear policy on needs-based funding expenditure linked to the school plan and improved reporting options at both the school and system levels. The Department is developing a needs-based funding evaluation framework to support the tracking of school and student outcomes resulting from the effective use of needs-based funding. The evaluation framework will identify and inform the future delivery of resources to schools, professional learning requirements of principals and school leaders, and the clarification of accountability requirements. The Department will determine a consistent view of the objectives for the use of equity funding. These will be communicated to schools through school planning resources, and policy and accountability requirements. The Department will continue to develop and deliver appropriate examples of effective practice that demonstrate the impact on student learning and include details of improvement measures. Recommendations linked to Aboriginal student equity funding are to be co-designed with key NSW AECG Inc.

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
2. Better integrate equity funding into school planning and reporting by:				
a) supporting schools to set consistent measures and targets for improving educational outcomes for each equity group	SOAP	Ed Services (CESE, L&T)	Supported in principle	The Department has set targets at a school level for all appropriate student groups based on available system level data. This includes school level targets for expected growth (reading and numeracy) which cut across all equity groups, and Principal Network targets for HSC attainment of Aboriginal students. Schools can also set targets at the local level to monitor and track student learning, including through individual student learning plans. As part of the Disability Strategy launched in 2018, the Department is working to strengthen the outcomes measures for students with disability in NSW. This work is drawing upon international evidence of how to find appropriate and inclusive methods for measuring student progress. In line with the NSW Government announcement on reforming Local Schools, Local Decisions (5 March 2020), further consultation on relevant targets for schools, informing broader reform of Local Schools, Local Decisions, will be undertaken in 2020. Further measures will be considered as part of this process, for schools of sufficient size where outcomes can be reliably measured.
b) providing schools with a four-year projection of funding for each equity group based on past enrolment trends	Finance	SSR (projections modelling)	Supported in principle	The Department is committed to providing certainty about funding linked to the school planning cycle. The Department will construct and provide explicit instructions to schools regarding funding expectations to strategically plan for student learning needs and meeting identified targets. There will be greater oversight over the use of equity funds at both the local and system level; in cases where a school requires more guidance, the Department will support, monitor and intervene as appropriate. This will ensure the right balance between local flexibility and transparency around decision making and accountability for improving student outcomes.

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
c) supporting schools to implement effective strategies for community engagement on the development of the school plan priorities	Delivery Unit	L&HP (PSL and SSR – has a range of resources) L&T L&W	Supported	The Department will continue to collaborate with its stakeholders to develop community consultation resources including: • guidelines that outline expectations for schools • examples of what can be achieved through authentic community consultation • suggestions to suit a range of different school contexts • useful resources, including rubrics • written, video and podcast based case studies. Community consultation will be included in inductions for principals and executive. The 'engaging and working with the community' credential will be reviewed to include more guidance on consulting with the community around school planning. The new school planning process is well underway and will include a strong focus on local community consultation focused on students and their learning needs, including the student equity groups that most require support
d) requiring schools to identify how they plan to use available funding sources to meet the additional learning needs of identified equity groups and the outcomes expected.	L&HP (HP & PSL)	CESE	Supported	The Department will introduce a new school planning approach, for implementation from 2021, which will outline expectations, accountability and provide schools with clear guidelines on the use of equity funding to meet the needs of students as part of an overall Strategic Improvement Plan. The Department will continue to support all schools to identify and use funding to best meet the learning needs of equity groups. The Department will work collaboratively with stakeholders to identify effective strategies underpinned by research and suited to a range of school settings and needs. School-based targets will improve line-of-sight to student outcomes for all students, further enabling an appropriate balance of support and accountability for schools. Alongside targeted funding for equity groups, it is expected that schools will continue to flexibly allocate additional

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
				resources to meet the needs of students in ways that reduce equity gaps, and that the funded projects and strategies are reflected in the school's improvement plan.
e) requiring schools to report on how they have used funding to meet the additional learning needs of identified equity groups and the outcomes that have been achieved.	L&HP (SSR)	L&HP (PSL and HP) CESE	Supported	See response to 2d. Introduction of a new school plan and school-based targets will support improved reporting, as will automation of the Annual School Report, linked to the new school plan. In addition to these structures, the Department will undertake further work to strengthen reporting on use of equity funds. The Department will strengthen the capabilities of school leaders to plan for the effective use of their needs-based funding against human resources, programs and resources to enable the school to implement high impact activities that promote improved student learning and wellbeing outcomes.
3. Measure and report on school and student outcomes achieved as a result of equity funding on an ongoing basis.	L&HP (SSR)	CESE L&HP (HP)	Supported in principle	See response to 2e and 2d. At a system level, performance targets are included in the Department's business plan, and Education outcomes targets will be published in the budget papers. As noted in the audit, these include targets to reduce equity gaps for low SES and Aboriginal students. This recommendation will be implemented with consideration of the findings from the Report into Measurement and outcome-based funding in New South Wales schools. The Department has over 200 published school snapshots (examples of successful practice) on its website that capture and share outstanding practice in improving student outcomes through the delivery of programs using equity funding. The Department consistently reviews and updates these snapshots to provide schools with relevant and meaningful examples of outstanding practice.

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
				As noted in 2a, as part of the Disability Strategy launched in 2018, the Department is working to strengthen the outcomes measures for students with disability in NSW in line with international evidence. Findings from current trials will inform implementation.
4. Identify schools that have made significant and sustained improvements for specific equity groups and share better practice approaches for using equity funding.	CESE	ES L&HP (PSL and SSR-FST)	Supported	This work is already underway (see response to 3)
5. Identify schools that have not met expected growth for equity groups and provide tailored advice and support on effective approaches to lift performance.	CESE	SO&P ES	Supported in principle	The Department delivers tailored, evidence-based support for schools in key areas of school improvement (480 schools in 2019) .Schools are identified for strategic services through discussions between the Director, Educational Leadership and the Service Manager in School Services; the topic and plan for support is then co-created with the principal and their leadership team, forming a service agreement agreed by all parties. Target-setting with schools to increase line-of-sight to student outcomes will inform discussions around targeting support to areas of need in 2020. These targets include overall school performance measures, which would reflect the outcomes of all students.
6. Strengthen guidance on implementing cost-effective and educationally sound interventions that target the learning needs of equity students. For example, by expanding upon the Centre for Education Statistics and Evaluation's 2015 'What works best' publication and incorporating additional evidence.	CESE	L&HP (SSR)	Supported	The Department will develop further examples of best practice school improvement that demonstrate how schools from a range of contexts have used needs-based funding and school improvement strategies to support continuous improvement. A range of delivery options will be considered including video and podcasts, facilitating ease of access for busy principals and school leaders. CESE will be releasing an updated, "What Works Best" paper as well an additional "What Works Best in Practice" paper and toolkit for teachers during the first half of 2020.

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
				These resources will update the evidence and provide support to teachers and schools about practical implementation strategies for NSW classrooms. Real school examples will be provided in order that schools with similar student groups are able to see contextually relevant strategies and approaches to support improvement.
7. Better coordinate support provided to schools on community consultation, strategic planning, resource allocation and strategic financial management.	L&HP (HP)	L&HP (SSR)	Supported	The Department is refining its School Excellence cycle and is developing a comprehensive new School Excellence resource package. This includes support for schools on community consultation, strategic planning, resource allocation and strategic financial management. The Department promotes and recognises that different school contexts and sizes require differentiated support and training to be delivered. Principals and school leaders receive high quality support and advice through multiple channels to address reactive, complex and strategic support and mentoring needs. Initial discussions are underway to deliver a strategic support model for schools. To date the efforts of different teams are being mapped to strengthen and align our support and service delivery model.
8. Improve training and support to lift the financial management capabilities of school principals, business managers, and Directors, Educational Leadership.	Finance	L&HP (SSR – focused on strategically linking planning and budgeting)	Supported (note that this recommendation is broader than just the needs-based funding)	The Department will deliver an improved model of professional learning, training and support which will clarify the purpose of needs-based funding and bring together key requirements for schools that balance flexibility and accountability. The Department's financial management optimisation project delivers one to one support to principals to develop financial decision making and capacity. New and aspiring principals must complete the Strategic Financial Management credential, to strengthen and inform their understanding of the use of budget allocations, including equity funding, to improve student outcomes. This is integral to successful strategic financial management in

Recommendations - By April 2021, the Department of Education should:	Lead area	With input from	Support/Not supported. If not, please advise why	Action to implement + Other comments
				schools. Further support will be provided to assist Directors, Educational Leadership.

Appendix two – About the audit

Audit objective

This audit assessed the effectiveness of the Department of Education's support and oversight of school planning and use of needs-based funding.

Audit criteria

We addressed the audit objective by through the following audit questions and criteria:

1. Effective accountability arrangements have been established to ensure that public schools are managing needs-based funding efficiently and effectively.
    a) The department has well defined roles and responsibilities and sets clear expectations for how schools should use needs-based funding.
    b) The department ensures schools consider community input and broader strategic priorities in their school planning process.
    c) The department ensures schools use needs-based funding in line with the expectations set by the department.
    d) The department identifies schools struggling to generate improvements, and targets interventions and support accordingly.

2. The department effectively supports public schools to build the capacity required to develop school plans and use needs-based funding.
    a) The department has effectively planned how it will strengthen capacity in public schools to develop school plans and use needs-based funding
    b) The department periodically assesses the relevance and effectiveness of support for planning and use of needs-based funding in public schools and uses evaluations to improve services.
    c) Schools are using systems, tools and guidance to develop school plans and use needs-based funding.

Audit scope and focus

In assessing the criteria, we focused on the following aspects:

1. arrangements for oversight of school planning and reporting including:
    a) policies and guidelines for how schools should allocate needs-based funding
    b) policies, processes and roles for providing oversight
    c) policies and guidelines for community engagement in school planning
    d) school improvement processes.

2. support provided to schools including:
    a) budgeting and reporting systems and tools
    b) policy, guidelines and good practice examples
    c) professional learning, mentoring and development programs
    d) reviews and evaluations of support provided to schools.

Audit exclusions

The audit did not assess:

- the impact of needs-based funding on education outcomes
- planning or use of school operational, initiative or targeted funding.

Audit approach

Our procedures included:

1. Interviewing:
    - relevant head office staff responsible for developing and reviewing policies, guidelines, professional learning, and support systems
    - principals, business managers and school administration managers from 12 primary, secondary schools and schools for specific purposes.

2. Examining relevant documents and data including:
    - school budget allocation reports, school plans, annual reports and evidence sets prepared for external validation panels
    - departmental planning documents, guidelines and communication materials
    - training program materials, number of participants and evaluations.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the co-operation and assistance provided by the Department of Education throughout the audit. We also thank staff at schools we selected to interview and other stakeholders who met with us to discuss the audit.

Audit cost

The estimated cost of this audit including travel and overheads is $325,000.

Appendix three – Performance auditing

What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively, and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Public Finance and Audit Act 1983* for State government entities, and in section 421D of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's audit committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian and international standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

Professional people with purpose

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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