

Mr Rob Randall  
CEO  
Australian Curriculum, Assessment and Reporting Authority (ACARA)  
Level 13, Tower B, Centennial Plaza  
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20 February 2017

Dear Rob

## **Methodology for reporting financial data on the My School website**

In accordance with our Engagement letter dated 24 June 2016 we set out below our advice regarding your agreed methodology (the 'Methodology') for collecting school financial data ('the financial data') for the purpose of disclosing such data on the My School website (the Project).

### **1. Background**

The Australian Curriculum, Assessment and Reporting Authority (ACARA) was established by the Australian Curriculum, Assessment and Reporting Authority Act 2008 (ACARA Act) and is a Commonwealth Authorities and Companies Act 1997 agency. ACARA is governed by a board, the members of which represent the Australian Government and all education streams (Independent, Government and Catholic) across states and territories.

As part of its data collection and reporting function ACARA administers the My School website, [www.myschool.edu.au](http://www.myschool.edu.au), which provides contextual and performance information for each of approximately 10,000 Australian schools.

The Education Council (formerly known as the Ministerial Council for Education, Early Childhood Development and Youth Affairs) have determined that information about each school's calendar year 'recurrent income' and 'capital expenditure' be included in the My School website as part of the information to be provided about a school's capacity to produce educational outcomes.

In 2009 ACARA established the Finance Data Working Group ("ACARA FDWG") which reports to ACARA's management. The task of the ACARA FDWG was to establish a nationally consistent system for the reporting of school level financial data. Such financial data was published on the My School website for the first time in March 2011 in relation to 2009 financial year data.

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Deloitte are engaged by ACARA to provide accounting expertise and advice regarding the collection and reporting of school financial data. The purpose of this letter of accounting advice is to assist ACARA in the evaluation of the appropriateness of the Methodology in the context of The Education Council's objectives. This letter of accounting advice relates to the agreed Methodology used to report financial data on the My School website in relation to 2015 calendar year financial data.

The Methodology used for the reporting of 2015 financial data is substantially the same as that used for reporting 2014 financial data. The ACARA FDWG continue to work to reduce the number of limitations during the year to maximise comparability over time.

The Methodology is set out in Appendix A.

The following are represented on the ACARA FDWG:

*Jurisdictions:*

- NSW Department of Education (formerly Department of Education NSW)
- ACT Education Directorate (formerly ACT Education and Training Directorate)
- Department of Education NT
- Department of Education and Training QLD (formerly Department of Education, Training and Employment QLD)
- Department of Education and Child Development SA
- Department of Education and Training VIC
- Department of Education WA
- Department of Education Tasmania
- Department of Education and Training (formerly the Department of Education)

*Non-government system authorities:*

- National Catholic Education Commission (NCEC)

*Independent Schools:*

- Independent Schools Council of Australia (ISCA)

The following authority was also represented on the ACARA FDWG:

- ACARA (Chairing)

## **2. Our responsibilities**

We provide our advice in accordance with Australian accounting pronouncements (where applicable) and include an assessment of the extent of achievement of The Education Council's objective that the community has access to nationally comparable data on both government and non-government schools.

This assessment was performed by:

- Discussing and understanding each jurisdiction's proposed approach and the system constraints currently in existence with the ACARA FDWG chair;
- Communicating and facilitating resolution of issues that arose during our discussions with jurisdictions amongst the ACARA FDWG group and individual state/territory Catholic Education Commissions; and
- Examining the Methodology and identifying in our report aspects of the Methodology that may limit the comparability of data reported by schools (within jurisdictions and between jurisdictions/schools).

We understand that the objective of the Methodology is not to eliminate operational differences that exist between jurisdictions and schools, but rather to maximise comparability by providing a common accounting framework. The objective of our assessment of the Methodology is to provide an opinion on the extent to which the accounting framework set out in the Methodology provides a reasonable basis for collecting materially comparable data.

This report should be read in conjunction with our Service Agreement.

This report is intended solely for the use of ACARA's management and board for the purpose of evaluating the appropriate accounting treatment of the Project. It should only be used in accordance with the terms of use set out in our Services Agreement and not for any other purpose.

### **3. Our conclusion**

In our professional opinion, except for certain comparability limitations outlined in Section 6(a) and (b), the Methodology summarised in Appendix A provides a reasonable basis for the collection of materially comparable financial data by school on a national basis.

Furthermore, in our professional opinion:

- a) the Methodology incorporates allocation principles which are consistent with the requirements of AASB 1004 Contributions which requires contributions to be accounted for at fair value; and
- b) the disclosure format set out in Appendix A supports the objective of disclosing comparable recurrent income and capital expenditure by school nationally.

We have formed our opinion based on our understanding of the Project, our interpretation of the relevant accounting pronouncements and assuming that each jurisdiction and individual school maintains accurate underlying accounting records.

This is the seventh year of collection of national financial data by school and in order to further improve the comparability of the data reported under the Methodology in future years, certain changes and improvements to departmental source systems will need to be made to more easily enable jurisdictions to report data on a by school basis. The ACARA FDWG anticipates that such changes and improvements will continue to be made over time. This may result in further refinement of the reporting Methodology in future periods.

#### **4. Relevant accounting pronouncements**

The following pronouncements have been considered and referred to in reaching our conclusion in this report:

AASB 1004 – Contributions. Refer to our detailed discussion in section 5 below.

#### **5. Compliance with Australian accounting pronouncements: Notional Income allocations**

##### **a) Government school systems**

The majority of school expenditure in the government sector is incurred centrally at departmental level. The books and records of the individual schools include locally sourced funding and in most cases a relatively small proportion of discretionary expenditure. Centrally incurred costs often include payroll, cleaning, maintenance and corporate costs. In many states/territories these costs are not recorded in the department general ledgers on a “by school” basis. Generally this centrally incurred expenditure is not recharged to individual schools.

In order to identify comparable recurrent income by school (i.e. generate recurrent income and capital expenditure by school as if each government school were accounted for as a standalone entity) it is necessary to allocate to each school a “Notional Income” based on the contribution or non-cash benefit that each school has received from its respective government education department.

This approach is consistent with the principles of AASB 1004 – *Contributions*. AASB 1004 paragraph 11 states that “Income shall be measured at the fair value of the contributions received or receivable.” A contribution occurs when an entity receives an asset, including the right to receive cash or other forms of asset without directly giving approximately equal value to the other party or parties to the transfer; that is, when there is a non-reciprocal transfer. This accounting standard supports recognition of notional recurrent income based on the fair value of contributions received.

In this case government schools receive the following benefits which are akin to a non-reciprocal transfer from the government department: teaching staff, administrative support, IT support, regulatory support etc. In our opinion the best available basis of estimation of the fair value of this support (or non-reciprocal transfer) is the cost incurred by the department. Under the Methodology department expenditure will be allocated to each school within that jurisdiction as an estimate for the contribution or benefit received by that school.

Notional income will be added to actual income generated at school level to arrive at recurrent income.

##### **b) Non-government State and Territory Catholic Education Commission systemically operated schools**

Catholic systemic schools and system head entities are required to report audited financial results to the Department of Education in the Financial Questionnaire on a calendar year basis.

The state/territory system head entities will allocate their and related entities’ recurrent income and capital expenditure to each school within their system, and in certain cases to non-systemically funded Catholic schools. Certain income is retained and spent by the system head entity for the benefit of the schools, and such income should, therefore, be allocated to each school in the system in order to maximise comparability with government jurisdictions and other non-government schools.

**c) Independent schools (ie. Non-government, non-Catholic systemically funded schools)**

Each independent school is required to report audited financial results to the Department of Education and Training in the Financial Questionnaire on a calendar year basis.

There are a number of systems outside of the government and Catholic sectors, and the same principles of allocation discussed above will be applied within these systems as will be applied within the Catholic systemically funded schools system.

Certain costs associated with administering projects for independent schools (eg. BER administration funding) are incurred by the state/territory Block Grant Authorities, and for consistency with the Catholic and government jurisdictions, costs incurred in the year will be allocated to Independent schools on a notional basis.

**6. Comparability Limitations**

Our detailed assessment as to the extent to which the Methodology meets The Education Council's objective that the community has access to nationally comparable data on both government and non-government schools is set out below.

We have listed below the aspects of the Methodology that we have identified that may limit the comparability of the data reported. We have aggregated these aspects of the Methodology as follows:

- a) Likely to be material – aspects of the Methodology that may limit the comparability of specific components of data between jurisdictions which are likely be material to the user;
- b) Limitations of Scope – aspects of the Methodology that may limit the comparability of specific components of data between jurisdictions where the extent of limitation is unknown; and
- c) Unlikely to be material – aspects of the Methodology that may limit the comparability of data between jurisdictions which are unlikely be material to the user.

The limitations each relate to specific components of the financial data to be reported under the Methodology. The limitations should be considered with reference to the components of data to which they specifically relate and should not be assumed to be pervasive to all aspects of reported data.

In each case we have also included our understanding of why the ACARA FDWG has accepted each aspect of the Methodology.

In agreeing the most appropriate Methodology the ACARA FDWG were aware of these potential limitations but were unable to identify practical solutions to these inconsistencies within the reporting timeframe, primarily due to constraints and differences within the reporting systems and structures of each jurisdiction. Effort has been made by the ACARA FDWG to eliminate as many inconsistencies as possible and practicable.

**a) Material limitations:**

***Net Recurrent Income***

There are no known material limitations that affect Net Recurrent Income in the current year.

***Capital***

<b>Item</b>	<b>Reporting component</b>	<b>Limitation</b>	<b>Risk</b>	<b>Reason why accepted by ACARA FDWG</b>
1.	Capital expenditure	QLD and WA government jurisdictions will report capital expenditure based on a completed project basis. In these jurisdictions incomplete project costs have not been included in capital expenditure. Other jurisdictions have been able to identify the asset component of incomplete project costs and have reported these costs within capital expenditure.	Where there is an inconsistency in the level of incomplete projects at the beginning and end of a particular year, it is likely that a material inconsistency will exist within capital expenditure between jurisdictions that have reported on these different approaches.	The identification of the asset component of incomplete projects is only performed at the end of a financial year for certain jurisdictions. It was deemed by the jurisdictions affected (QLD and WA Government) to be impractical to perform such an analysis at this stage.

**b) Limitation of scope**

<b>Item</b>	<b>Reporting component</b>	<b>Potential limitation</b>	<b>Risk</b>	<b>Reason why accepted by ACARA FDWG</b>
2.	Net Recurrent Income & Capital expenditure	Government jurisdictions operate on a financial year basis and therefore at the time of preparing their working papers the audit of the financial data at department level for the year ending 30 June 2016 may not have been completed. Certain government jurisdiction schools are only subject to standalone audits on a rotation or an ad hoc basis. Independent and Catholic systemic schools and system authorities report on a calendar year basis and are subject to audit annually.	Data will be subject to jurisdictions' routine systems checks and balances however there remains a risk that unaudited financial data may be misstated.	Use of financial year data in the government sector to derive calendar year is unavoidable given the time frame for initial reporting. Prior to the financial data being disclosed on the website, jurisdictions are able to revise their reported data subsequent to completion of department level financial year end audits. Government sector financial data accounts are audited on a financial year basis.

Item	Reporting component	Potential limitation	Risk	Reason why accepted by ACARA FDWG
3.	Net Recurrent Income & Capital expenditure	Government jurisdictions will use actual expenditure data on a monthly basis where possible in order to derive data on a calendar year basis. Calendar year opening and closing positions will not have been subject to audit as government jurisdictions are subject to audit on a financial year basis, not a calendar year basis.	There is a risk that the opening and closing positions may not be as accurate as they would be had they been subject to audit.	Government sectors do not consider this to be a significant risk due to the application of routine jurisdiction systems checks and balances.
4.	Net Recurrent Income	In all government jurisdictions there will be an element of expenditure which cannot be sourced on an actual by school basis (eg. indirect department overheads) and instead needs to be allocated to schools on a notional basis (e.g. using FTE enrolment numbers). The proportion of expenditure allocated on a notional basis will differ between jurisdictions due to the differing information available within each jurisdiction's ledger or source system.	The existence of different accounting systems between jurisdictions will mean that there will be variability between jurisdictions in relation to the relative proportion of expenditure that will need to be allocated notionally. Notional allocation is inherently less accurate than being able to report actual expenditure maintained by school.	Systems in certain jurisdictions do not easily enable reporting of financial data by school. Allocation of expenditure is the only viable option at this stage due to government systems having significant amounts of centrally incurred expenditure that is not accounted for on a by school basis within the system.
5.	Capital expenditure	Asset recognition thresholds differ between jurisdictions.	A limitation to full comparability may exist between jurisdictions.	The ACARA FDWG concluded that, for practicality and consistency purposes, capital thresholds are to reflect current jurisdictional departmental policy for the purpose of annual capital expenditure determinations. Thresholds are shown in Appendix A.

<b>Item</b>	<b>Reporting component</b>	<b>Potential limitation</b>	<b>Risk</b>	<b>Reason why accepted by ACARA FDWG</b>
6.	Net Recurrent Income & Capital expenditure	VIC, TAS, SA and NT government jurisdictions partly self-insure for certain forms of insurance. Rather than incurring a policy cost, these jurisdictions choose to incur asset replacement costs and/or legal and associated costs in the event of claims.	There may be a difference in the amount of expenditure allocated as recurrent income and capital expenditure between jurisdictions and systems that self-insure and those that do not. The potential difference has not been quantified.	This limitation remains on the basis that not all jurisdictions have autonomy over whether they insure or self-insure, making this matter distinct from other management determined operating decisions which may differ between jurisdictions. Policy costs vary across sectors but are understood to be less than 2% of total costs.

**c) Less likely to be material limitations**

<b>Item</b>	<b>Reporting component</b>	<b>Limitation</b>	<b>Risk</b>	<b>Reason why accepted by ACARA FDWG</b>
7.	Net Recurrent Income & Capital expenditure	TAS and WA Government jurisdictions, a small number of independent schools and the WA Catholic systemic jurisdiction are permitted to include "Yr 1-2" (i.e. Preschool) costs. (refer definition section of the Methodology for precise definition of Yr 1-2 which is referred to differently in each state and territory)	To the extent that financial data is disclosed in total by school, data reported by schools affected in the aforementioned jurisdictions compared to other jurisdictions will not be fully comparable. The extent of the limitation in comparability will be impacted by the size of the school and enrolment levels, however from information that has come to light during the current period it appears that Yr 1-2 income would make up less than 2% of total income and only for those schools in those jurisdictions affected.	Yr 1-2 cannot be separated from the financial data in a minority of jurisdictions.



Item	Reporting component	Potential limitation	Risk	Reason why accepted by ACARA FDWG
8.	Net Recurrent Income	Methods of allocation of recurrent income to schools (where actuals are unavailable) will differ between jurisdictions/systems. This primarily affects government school systems.	Methods of allocation (e.g. on FTE enrolment, floor plan or other appropriate cost driver basis) appear to be appropriate given the nature of expenditure being allocated as recurrent income. The basis of allocation proposed is expected to approximate actual expenditure by school, however no verification has been performed.	Systems in certain jurisdictions do not enable reporting of system recurrent income by school. Allocating recurrent income on an apportionment basis is the only viable option.
9.	Net Recurrent Income & Capital expenditure	<p>Total School Sourced Income reported by schools in the following jurisdictions are required/permitted to "cash account":</p> <ul style="list-style-type: none"> <li>• WA Government schools;</li> <li>• The majority of the following Catholic systemic schools: VIC, WA, QLD, NT &amp; NSW (mainly primary and some non-incorporated secondary schools); and</li> <li>• A small number of independent schools</li> </ul> <p>Schools in other jurisdictions apply accrual accounting.</p>	A limitation to full comparability may exist between jurisdictions. All non-government schools are however required to report Government grants on an accruals basis and so in relation to non-government schools this risk would be limited to private income sources.	Impracticable to adjust each school to ensure all are fully accrual accounting. Total school sourced income and capital expenditure generally represents <15% of total income and capital expenditure reported. The impact of this minority of schools applying cash accounting is unlikely to be material as the affected income and expenditure is a small subset of total income.

Item	Reporting component	Potential limitation	Risk	Reason why accepted by ACARA FDWG
10.	Net Recurrent Income & Capital expenditure	<p>The ACT government jurisdiction will allocate actual costs by applying their "points based allocation model". Points are allocated to each school depending on the types of education services provided and on the ranges of teaching staff on payroll at each school.</p> <p>All other government jurisdictions will source data by school from sub systems or the general ledger and allocate overhead costs on a notional basis.</p>	<p>The allocation of costs for ACT government schools is dependent on the accuracy of the "points based allocation model".</p> <p>The allocation of the majority of costs for other government jurisdictions is dependent on the accuracy of the "by school" data that is obtained from source systems (eg Payroll ledger, general ledger etc).</p>	<p>The ACT use this model to manage school level expenditure and believe it is the most accurate method of allocation in their jurisdiction, as such a different method of allocation from other jurisdictions was agreed by the ACARA FDWG.</p> <p>It is the intention of the ACT to change their method of collating and reporting on a by school basis at some point in the future, therefore removing this limitation for future periods.</p>
11.	Net Recurrent Income & Capital expenditure	<p>Some government jurisdictions do not have full visibility as to how much locally generated income and/or surplus operational funding has been used to fund capital expenditure at the school level. In this case income reported would include an element of capital income.</p>	<p>There may be a limitation in comparability of reported income before deductions to the extent that capital income is included in the data reported.</p>	<p>A practical resolution to this limitation was not able to be found retrospectively. School level income is generally expected to represent less than 15% of total income and as such the impact of this limitation (which affects a subset of that school generated income) is unlikely to be material to the reported data.</p>
12.	Net Recurrent Income	<p>NSW and QLD government jurisdictions will, for a relatively small component of their costs, use budgeted amounts instead of actual amounts to identify certain components of cost by school.</p>	<p>Budgeted amounts may differ from actual amounts.</p>	<p>These jurisdictions have indicated that the budgeted split of certain costs by school is the most accurate method available for allocating those components of cost.</p>

Item	Reporting component	Potential limitation	Risk	Reason why accepted by ACARA FDWG
13.	Net Recurrent Income	Some Government jurisdictions do not have control of income earned on Long Service Leave (LSL) funds. The Methodology therefore excludes such income from recurrent income. Catholic systemic schools that participate in centralised LSL schemes have excluded such income from their reported data. Independent schools (other than Catholic systemic schools) are unable to identify such funds and hence have included any such income within income reported.	Independent schools' (other than Catholic systemic schools) income may be proportionately higher to this extent.	A practical solution to this inconsistency was not able to be identified.
14.	Capital Expenditure	The method of notional allocation of a portion of government sector and independent system level capital expenditure based on enrolment may not be an appropriate basis of allocation.	Actual capital expenditure is not driven by enrolments, such expenditure may be driven by other factors that differ between schools.	Where systems do not enable reporting by school, identification of a notional method that more accurately approximates actual expenditure was not possible given the range of factors that drive capital expenditure decisions.
15.	Net Recurrent Income	Certain Government jurisdictions include on costs in their My School data that have been calculated using a fixed percentage rather than the actual on costs included in the G/L, for workers comp, Annual Leave, LSL and Super.	Departures from using actual expenditure within the government jurisdictions may limit comparability with other systems, jurisdictions and non-government schools.	This method of allocation was agreed in order to maximize comparability between government jurisdictions. Affected jurisdictions believe that the resulting notional income allocation would eliminate fluctuations in the year and better reflect the funds available to each school to deliver educational outcomes.

Item	Reporting component	Potential limitation	Risk	Reason why accepted by ACARA FDWG
16.	Net Recurrent Income	Transport to and from school and allowances paid to parents are excluded from government departmental expenditure allocated as notional income to schools.	Some transport costs need to be funded by independent schools from recurrent income, no similar deduction from fee income is permitted under the Methodology. This may create a limitation in comparability between government and independent schools.	It was considered impracticable to adjust independent data for such components within the timeframe and the proportion of income affected is likely to be well below 5% of total income. Furthermore the limitation only relates to privately funded transport.
17.	Net Recurrent Income & Capital expenditure	Certain government schools do not account for non cash benefits received. Schools which account in accordance with accounting standards are required to record benefits in kind at fair value.	Those schools that do not account for non-cash benefits will be reporting lower Net Recurrent Income and/or capital expenditure compared to schools that do.	Impact of this variation in treatment between schools was considered unlikely to be material.
18.	Net Recurrent Income & Capital expenditure	Government departments may not have full visibility of Commonwealth sourced income paid directly to schools by departments other than the Department of Education and Training.	An element of Commonwealth funding may not be identified as Commonwealth sourced funding.	The impact of this is expected to be minimal given that school sourced income generally makes up no more than 15% of Net Recurrent Income and this limitation relates to a small subset of that percentage.
19.	Net Recurrent Income	NT Government department ledger does not include LSL expense. Such expenses are recorded by the Central Holding Authority.	Departmental recurrent income is understated in comparison to other jurisdictions which account for LSL provisions within their reported income.	It was estimated that the impact as a percentage of Net Recurrent Income in total and by school would be <2% and therefore not material.
20.	Capital Expenditure	The Methodology requires jurisdictions to report capital expenditure on an accrual basis of accounting. The NT government have included capital expenditure on a cash basis.	There may be timing differences between capital expenditure reported in NT schools compared to other jurisdictions.	The impact year on year is unlikely to be material. The data available for reporting capital expenditure on a calendar year basis for NT government schools is on a cash basis.

## **7. Assessment of Apportionment methodologies**

Certain centrally incurred expenditure will be apportioned to individual schools within each government jurisdiction using a notional basis of apportionment. Similarly certain centrally earned income will be apportioned to individual schools within the Catholic system and within the other non-government systems, also using a notional basis of apportionment. A range of different bases of apportionment will be used, including:

- FTE enrolment numbers (most government jurisdictions, the Catholic system and the other non-government systems);
- Floor space (NSW government: Cleaning & Maintenance);
- Points allocation matrix (percentage points are allocated to each school depending on the types of education services provided and on the number and range of teaching staff on payroll at each school) (ACT government); and
- Actual Schools Salaries (VIC government).

Other than as stated in section 6 above, the apportionment methodologies selected appear to represent a reasonable basis of apportionment, given the nature of the individual type of expenditure being allocated.

## **8. Assessment of Disclosure Format**

The decision was made by the ACARA FDWG and approved by ACARA and The Education Council that "recurrent income" and "capital expenditure" should be disclosed on the My School website. The ACARA FDWG's reporting mandate was also to identify a method of reporting funds available to each school, on a comparable basis, to produce educational outcomes. We understand that the requirement to report school level income is also included in the National Education Agreement and the Schools Assistance Act 2008.

We did not provide any advice as to the components of data that should be disclosed, however, on the basis that the decision was made by The Education Council, ACARA and the ACARA FDWG to disclose recurrent income and capital expenditure by school analysed by source of funding, in our professional opinion the disclosure format reported supports the objective of disclosing comparable data by school nationally.

### **a) Gross v Net disclosure of Income**

In relation to Independent and Catholic system schools, in order to report recurrent income (excluding any capital component), gross fees and other private income must be split between funds that were to be used for recurrent purposes and funds that were allocated to capital purposes (either in the current year or in future years). Fee income in a non-government school often needs to fund both recurrent and capital expenditure, however, any such identification of the amount of fee/private income that is to be used for capital purposes is performed at the discretion of the school. As such, in order to provide the user of the My School website with transparency in relation to this allocation process it was decided that fee and privately sourced income should be disclosed gross with the following deductions separately disclosed:

- Fee income and other private source income allocated to current capital projects
- Fee income and other private source income allocated to future capital projects and diocesan capital funds

We have concluded that by disclosing the gross fee and privately sourced income earned by each school, the user of the website can identify the component of gross income that is available to the school to provide educational outcomes and the component that the school has chosen to allocate for capital purposes at their discretion.

A further deduction was agreed as follows:

- Fee income, other private source and government recurrent funding allocated to debt servicing (includes principal repayments and interest on capital loans and finance leases)

This deduction enables income used to repay debt to be identified. Such income is not available to fund recurrent expenditure and hence should be eliminated from gross income when considering the funds available for the delivery of educational outcomes.

#### **b) Source of funding**

Data has also been reported based on the source of funding of each component. This additional disclosure increases transparency and enables the user to compare between jurisdictions and between schools in a more informed manner.

### **9. Limitations on our report and statement of responsibility**

The ultimate responsibility for the determination of the appropriate Methodology for collecting financial data for disclosure on the My School website (the Project) rests with the Board of ACARA, based on advice from the representatives of the ACARA FDWG and ACARA's management.

This report is intended solely for the use of ACARA's management and board for the purpose of evaluating the appropriate accounting treatment of the Project. It should only be used in accordance with the terms of use set out in our Services Agreement. We do not accept any responsibility to any party other than ACARA for our work or our advice.

Our report has not addressed any tax, regulatory, or other matters other than the specific accounting treatment described above.

We have drawn our conclusion based solely on the facts and other information provided to us by ACARA and the ACARA FDWG representatives, as outlined in the background section of this report and our interpretation of the relevant accounting pronouncements. If the facts, circumstances, assumptions or other information outlined in this report prove to be different from those described, our conclusion may change. For the purposes of preparing this letter of advice, we have not audited, tested or otherwise verified any of the information provided to us by ACARA or the representatives of the ACARA FDWG and we have assumed that all such information is accurate, complete and not misleading in any way.

We have been separately engaged by ACARA to perform certain assurance procedures in relation to whether, in reporting their financial data, the Reporting Entities have materially complied with the Methodology. We will issue a separate report in relation to that assurance engagement and make no reference to those procedures in this letter of accounting advice.

Our advice is based on our interpretation of Australian accounting pronouncements currently on issue. In the event that new or revised Australian Accounting Standards or Interpretations or other applicable pronouncements are issued in the future, our advice should be reconsidered in light of such changes and/or new requirements. We are under no obligation however to update our evaluation of the accounting treatment proposed by the ACARA FDWG for information provided further to the date of this report, or for other future events.

The interpretation of Australian accounting pronouncements involves the exercise of professional judgement. In particular, many issues relating to Australian Equivalents to International Financial Reporting Standards presently remain subject to professional interpretation in the absence of relevant authoritative interpretations. Accordingly, the facts, circumstances, assumptions and conclusions described in this report may be viewed differently by others. In addition, due to the evolution of professional interpretation of Australian accounting pronouncements, the facts, circumstances, assumptions and conclusions described in this report may subsequently be viewed differently by us and/or others. We are under no obligation to update our evaluation of the accounting treatment proposed by the ACARA FDWG for changes in our interpretation of Australian accounting pronouncements.

Please do not hesitate to contact us if you require any further assistance.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu". The signature is written in a cursive, slightly slanted style.

**DELOITTE TOUCHE TOHMATSU**

Chartered Accounts  
Dated, 20 February 2017  
Sydney

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## **Appendix A**

My School ACARA FDWG Financial Data Reporting Methodology - data year 2015  
("the Methodology")

The Methodology reflects the decisions made by the ACARA FDWG regarding their agreed methods of reporting data for the purposes of disclosure on the ACARA My School website.

**CONTENT PAGE**

1	<u>Disclosure Format</u> .....	3
2	<u>Methodology Principles – Government Jurisdictions</u> .....	4
3	<u>Methodology Principles – Independent and Catholic Jurisdictions</u> .....	7
4	<u>Capital Expenditure – Methodology Principles</u> .....	10
5	<u>Commonwealth v State/Territory split – source of funds (recurrent income and capital expenditure)</u> .....	12
6	<u>Definitions</u> .....	12

The Methodology reflects the decisions made by the ACARA FDWG regarding their agreed methods of reporting data for the purposes of disclosure on the ACARA My School website.

## 1 **Disclosure Format**

The following provides a reconciliation of the components that make up recurrent income and capital expenditure.

### a) Recurrent Income

#### **Recurrent income**

Australian Government recurrent funding (excludes capital grants)

State Government recurrent funding (excludes capital grants)

Fees, charges and parent contributions\* (gross amount)

Other private sources

#### **Sub-total**

*DEDUCT*

Income and other private source income (gross amount) allocated to current capital projects

Income and other private source income (gross amount) allocated to future capital projects and diocesan capital funds

Income, other private source and government recurrent funding (gross amount) allocated to debt servicing (includes a component of principal repayments and interest on capital loans & finance leases)

#### **Net recurrent income**

### b) Capital Expenditure

#### **Capital Expenditure (including source of funding)**

Australian Government capital funding

State Government capital funding

School loan drawdowns

Income allocated to current capital projects

Other sources and retained earnings from previous years for capital purposes

#### **Total capital expenditure for the year**

- *\*Parent Contributions: represent school initiated contributions*

## 2. Methodology Principles – Government Jurisdictions

The following section sets out the method that should be followed to calculate notional income for each government school. Notional income is to be based on a combination of actual expenditure incurred by school and an allocation of other costs which are not maintained on a by school basis by the departments. School sourced income should be added to this notional income calculation on a by school basis, to calculate recurrent income reported on the My School website.

Component of Notional Income	Method of accounting	Specific exclusions	Exceptions to core method
Wages and Salaries	Actual system level expenditure split by school per the department general ledger or payroll ledger (where the payroll ledger reconciles to the G/L). Expenditure is accounted for on an accruals basis, not on a cash basis.	<ul style="list-style-type: none"> <li>• Payroll tax</li> <li>• All costs re Year 1-2</li> <li>• Payments initially made by department to staff, and then billed to schools</li> </ul>	<p>ACT – allocating actual wages and salaries on a points basis to each school, adjusted to take into account the different levels of experience within each classification of personnel.</p> <p>TAS &amp; WA – Costs and students FTE numbers re Yr 1-2 to be included, as cannot be separated.</p> <p>TAS - Employee entitlements accruals are calculated at year end 30 June only and are allocated to schools based on enrolment data not actual employee entitlements.</p> <p>WA – will use an on cost for super and workers compensation based on salary figures at school level. This will be deducted from other apportioned costs.</p>

<b>Component of Notional Income</b>	<b>Method of accounting</b>	<b>Specific exclusions</b>	<b>Exceptions to core method</b>
<p>Costs incurred centrally by the relevant department</p>	<p>Actual system level expenditure split by school per department ledger or other source ledger (where source ledger reconciles to G/L) Where costs are not attributed directly to a school, they will be apportioned on the basis of an appropriate cost driver, such as student FTE enrolments.</p>	<ul style="list-style-type: none"> <li>• User cost of capital/interest (including interest on finance leases)</li> <li>• School student transport (to and from school – except where school owns buses)</li> <li>• Allowances/start bonuses/EMA (VIC) paid directly to parents for educational costs/clothing costs</li> <li>• All costs re Year 1-2</li> <li>• Depreciation &amp; amortisation</li> <li>• Grants paid by jurisdictions to schools, as these will appear on the individual school ledger.</li> <li>• Pacific School Games costs (and other equivalent event costs)</li> <li>• Offshore overseas student programmes (QLD)</li> <li>• Tertiary education (for non-school students)</li> <li>• Income earned on LSL funds (if applicable)</li> <li>• Remote area teacher housing costs over and above direct subsidies</li> <li>• Certain Non-Government Schools (NGS) costs (refer below)</li> </ul>	<ul style="list-style-type: none"> <li>• ACT – allocating actual departmental costs on a points basis to each school.</li> <li>• NSW – allocation methods as follows: Maintenance &amp; cleaning – based on floor space, Non School based teaching positions – based on info from DET regions.</li> <li>• NSW – total actual amounts for cleaning costs are available, while cost by school is not available. Therefore annual contract rates to be used with reconciling difference to G/L allocated based on floor space by school.</li> <li>• QLD – to use maintenance costs available by school on a budgeted basis and “derived” VET services costs rather than actual.</li> <li>• NT – Corporate overheads to be allocated via Output Allocation Matrix then by enrolments.</li> <li>• Some jurisdictions will apply a fixed percentage to W&amp;S to calculate their annual LSL provision, instead of the traditional actuarial method.</li> <li>• TAS &amp; WA – Costs and students FTE numbers re Yr 1-2 to be included, as cannot be separated.</li> </ul>

Component of Notional Income	Method of accounting	Specific exclusions	Exceptions to core method
"Umbrella services" (provided free of charge) to the GS and NGS	Actual system level expenditure split by school per department ledger or other source ledger (where source ledger reconciles to G/L)	<ul style="list-style-type: none"> <li>• <b>Type 1 Umbrella costs</b> (as defined in definitions section) - to be excluded from notional allocation.</li> </ul>	<ul style="list-style-type: none"> <li>• NT Government are also permitted to exclude other types of umbrella costs incurred on behalf of Non-Government schools.</li> </ul>
Government funding, fee income, other sources	Actual income as received by each school.	<ul style="list-style-type: none"> <li>• Year 1-2 income/site allowances (except TAS &amp; WA)</li> <li>• Allowances paid directly to parents for educational costs</li> <li>• Residential boarding fees</li> <li>• Costs associated with generating trading income should be offset against such trading income, to the extent that trading income exists in a reporting year.</li> </ul>	<ul style="list-style-type: none"> <li>• ACT – excludes income from sale of photographs &amp; book clubs.</li> </ul>

### **3. Methodology Principles – Independent and Catholic Jurisdictions**

Definitions for data terminology referred to in Sections 3 and 4 refers to the 2015 Department of Education and Training FQ Instructions ([https://ssp.education.gov.au/ssp/help/html/fq/downloads/new\\_fq\\_instructions.pdf](https://ssp.education.gov.au/ssp/help/html/fq/downloads/new_fq_instructions.pdf)).

BGA costs will also be allocated to relevant categories where applicable as notional income and capital expenditure.

<b>Component of Income</b>	<b>Method of accounting</b>	<b>Specific Exclusions</b>	<b>Exceptions to core method</b>
Commonwealth Government Recurrent Income (R1)	Represented by Department of Education and Training FQ codes: +RI.100T +RI.110T +RI.120T	Exclude targeted grants not yet allocated to a school that are allowed within the applicable funding agreement to be carried forward for future years.	
State Government Recurrent Income (R2)	Represented by Department of Education and Training FQ codes +RI.070T +RI.080T +RI.090T	For some independent and WA Catholic systemically funded schools it will not be possible to separate Year 1–2	
Fees, charges and parental contributions (R3)	Represented by Department of Education and Training FQ codes: +RI.010T +RI.020T +RI.030T +RI.040T +RI.050T +CI.030T +CI.040T	<ul style="list-style-type: none"> <li>Boarding income</li> </ul>	<ul style="list-style-type: none"> <li>Independent schools and Catholic schools which are not part of a centralised LSL scheme/system, will not be able to separately identify income earned on funds used to pay LSL liabilities.</li> </ul>

Component of Income	Method of accounting	Specific Exclusions	Exceptions to core method
Other private source income (R4)	Represented by Department of Education and Training FQ codes: +RI.060T +CI. 050T +TA. 010T -TA. 020T	<ul style="list-style-type: none"> <li>• Interest received from Catholic capital grants programs where the block authority has not determined the school recipient.</li> <li>• Income earned on LSL funds.</li> </ul>	<ul style="list-style-type: none"> <li>• If TA.010T &lt; TA. 020T then net trading losses are reported as nil.</li> </ul>
Gross Income (excluding income from government capital grants) (RG)	<b>RG = (R1 +R2 +R3 +R4)</b>		

Deductions from gross income should include all amounts included within gross income in the year (as defined by the Methodology) that:

- i) Have been or will be used for capital expenditure purposes in the current year or future years
- ii) Have been used in the current year to repay capital loans or pay for capital interest costs



**Deductions**

<b>Component of Income</b>	<b>Method of accounting</b>	<b>Specific Exclusions</b>	<b>Exceptions to core method</b>
Income allocated to current capital projects (D1)	+MS.050T		
Income allocated to future capital projects and diocesan capital funds (D2)	+MS.060T		
Income allocated to capital debt servicing (including principle repayments and interest on loans) (D3)	+RE.110T +LN.060T -MS.100T		
Total net recurrent income (RN)	$RN = RG - D1 - D2 - D3$		

#### 4. Capital Expenditure – Methodology Principles

Jurisdictions	Method of accounting	Specific Exclusions	Exceptions to core method
Government	<p>Actual system level expenditure split by school per department ledger or other source ledger (where source ledger reconciles to G/L)</p> <p>All capital expenditure incurred at department/region/system level to be included, unless specifically excluded in the following column.</p>	<ul style="list-style-type: none"> <li>• Year 1-2 (except TAS &amp; WA)</li> <li>• NGS costs (eg ICT expenditure)</li> <li>• Land acquisitions for future schools (until school is registered and title of land passes to school).</li> </ul>	<ul style="list-style-type: none"> <li>• ACT - Invoices from the Capital Works database will be used to allocate capital costs which are not allocated to individual schools in the ledger.</li> <li>• QLD – notional allocation of admin cost of BER projects on enrolment basis will be required.</li> <li>• QLD &amp; WA – to allocate department capital expenditure on completed projects only.</li> <li>• VIC - Centrally managed capital projects relating to schools will be apportioned on the basis of each school's funded student enrolment.</li> <li>• TAS - "Across schools" capital expenditure to be allocated based on enrolment numbers.</li> <li>• All states have different capitalisation thresholds (refer definitions section)</li> <li>• TAS &amp; WA – includes Yr 1-2</li> </ul>

Independent and Catholic sectors	Represented by Department of Education and Training FQ codes	Specific Exclusions	Exceptions to core method
Commonwealth Government Capital Expenditure (C1)	+MS.010T +MS.020T		
State Government Capital Expenditure (C2)	+MS.030T +MS.040T		
New school loans (C3)	+MS.090T		
Income allocation to current capital projects (C4)	D1		
Other (C5)	C5 = CE.030T-C1-C2-C3-C4		
Total capital expenditure (CE)	CE.030T		

## 5. Commonwealth v State/Territory split – source of funds (recurrent income and capital expenditure)

	Topic	Agreed Methodology
1	Split of Commonwealth and State source of funds (government sector only)	<p>Under the NEA Agreement the allocation by a government jurisdiction of the amount provided by the Commonwealth for recurrent grants for schools is a matter for the jurisdiction. Historical patterns of expenditure are no longer relevant.</p> <p>As such it is reasonable to assume that the ratio of Commonwealth recurrent grants expended on schools to State / Territory recurrent expenditure on schools is the same for all schools in that jurisdiction (ie both State and Commonwealth funding is pooled, and expenditure from that pool is taken out in equal proportions).</p> <p>It is acknowledged that there are certain targeted grants outside of the NEA Agreement (eg National Partnership Funds). These targeted grants to specific schools can be added to each of the Commonwealth and State / Territory amounts, depending on whether they are considered to be State or Commonwealth sourced funds.</p> <p>To the extent that jurisdictions cannot easily identify which schools have received benefit from these targeted funds, an appropriate allocation method should be used.</p>
		For the split of Capital Expenditure by Commonwealth v State/Territory, jurisdiction should apply a consistent principle as agreed for the purposes of splitting recurrent income between State and Commonwealth or split on an actual basis. The non-government sector will split between State and Commonwealth on an actual basis.

## 6. Definitions

- a. **Yr 1-2** = referred to using different language in each jurisdiction and entry ages range between jurisdictions but should be defined as “under 4yr olds” on entry into that year, except in TAS where entrants are 4yrs old.
- b. **Central Office/Corporate Costs** = To include all Department costs including Director General (or equivalent) and below, unless outside the scope of this exercise (eg TAFE or early childhood education costs).
- c. **My School FTE** = full-time equivalent (“FTE”) funded enrolments relating to recurrent income and capital expenditure. FTE used on My School may be different from the National Schools Statistics Collection (“NSSC”) defined FTE if the school has reported financial data relating to students not covered by the NSSC definition for FTE enrolments.
- d. **Umbrella Services** (to GS and NGS):
  - i. **Type 1** = School registration board funding, Curriculum testing, board of studies, registration/qualification authority costs, Grants to NGS accreditation board, NAPLAN, NGS Registration Board.
  - ii. **Type 2** = other umbrella services not specifically defined in Type 1 above.
- e. **Capitalisation Thresholds:**

<b>Jurisdiction</b>	<b>Threshold below which capital expenditure is expensed</b>	
		<b>\$</b>
SA		5,000
VIC		5,000
TAS		10,000
WA		5,000
NT		10,000
QLD		5,000
NSW	10,000 for property, plant and equipment or assets forming part of a network costing more than 10,000	
ACT		5,000
Catholic		500 to 5,000
Independent		5,000
		150,000 for capital works
		50,000 for software development
		100,000 for major software developments
		10,000 for buildings