

Estimates of Future Funding of Non-Government and Government Schools

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About the Author

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Key Points

1. The estimates of future school funding by the Senate Employment, Workplace Relations and Education Committee and the Commonwealth Department of Education, Science and Training (DEST) are inaccurate and misleading because they compare an income measure for non-government schools with an (inadequate) expenditure measure for government schools.
2. Total income available to non-government schools is under-estimated because borrowing by these schools is omitted. Borrowing is a significant source of funding for non-government schools, especially Independent schools.
3. The Senate Committee and DEST estimates of future government school funding are inaccurate because they are based on the Australian Government School Recurrent Cost (AGSRC). This measure does not include capital expenditure and superannuation, items which are included in non-government school expenditure. The Senate Committee failed to adjust its estimates for these omissions. DEST did adjust for these omissions but its estimates are flawed because:
 - it adjusts for the omission of capital expenditure from the AGSRC by excluding it from non-government school income as well and thereby omits a major source of funding advantage for non-government schools over government schools;
 - it adjusts for the exclusion of fees and donations from the AGSRC but not for the exclusion of private in-kind donations and many forms of government assistance to non-government schools from the non-government school measure;
 - some other adjustments are unsubstantiated and there may be inconsistent adjustment for government borrowing costs and capital-related expenses.
4. An alternative approach is to estimate future funding on the basis of past trends in per student expenditure for both government and non-government schools. The government school cash expenditure series (including superannuation) or the accruals expenditure series, excluding capital charges, are the best available measures to compare government and non-government school expenditure. The non-government school expenditure measure is a hybrid of cash and accruals accounting and therefore is not strictly comparable with either the cash or accruals measures of government school expenditure. There are several important differences between the measures. For example:
 - capital expenditure is used in the cash measure of government school expenditure and the non-government school measure while depreciation is used for the accruals measure of government school expenditure;
 - many non-government schools do not appear to account for superannuation on the accrual basis used for government schools and the methods of estimating superannuation expenditure vary;
 - other accrual expenses such as provision for long service leave are included in the accruals measure of government school expenditure and the non-government school measure but are not included in the cash measure for government schools;

- debt servicing costs are included in the non-government school expenditure measure but the borrowing costs attributable to government funding are not included in either the government or non-government school measures;
 - fees and donations are not included in the government school measure and private in-kind donations are not included in the non-government school measure; and
 - many forms of government assistance to non-government schools are not included in the non-government school measure and some are actually included in the measures of government school expenditure.
5. Alternative estimates of the future funding of government and non-government schools indicate that by 2003-04:
- non-government schools will increase their funding advantage over government schools from about 7 – 8 per cent in 2000-01 to 12 – 17 per cent;
 - Catholic school funding will improve from 8 – 9 per cent below government school expenditure in 2000-01 to being on a par with government schools;
 - Independent schools will increase their funding advantage over government schools from 31 – 36 per cent in 2000-01 to 40 – 44 per cent.
6. The measure of non-government school expenditure tends to under-estimate non-government school funding in comparison with government school expenditure because:
- many non-government schools, particularly in the Catholic sector, still use cash accounting and their expenditure is underestimated relative to the government school accruals measure;
 - private in-kind contributions to non-government school facilities and resources are omitted and these are likely to be higher than fees and donations to government schools, which are also omitted;
 - several forms of government assistance to non-government schools are omitted and some are included in government school expenditure. These include taxation concessions, access to services provided by state and territory Departments of Education and the administration of government funding and public accountability arrangements.

If adjustments were made to take account of these factors, the non-government school funding advantage over government schools would be higher than the above estimates.

7. Comparisons between government and non-government school expenditure should be adjusted for the different social obligations of the sectors. Government schools enrol higher proportions of students with complex learning needs that incur higher costs and government schools must meet other public obligations such as maintaining a system of local schools. Adjustment for these differences in costs would extend the funding advantage of non-government schools over government schools.

Introduction

A controversy has developed over the last year about comparative estimates of the future funding of non-government and government schools. The Senate Employment, Workplace Relations and Education Committee¹ and the Commonwealth Department of Education, Science and Training (DEST) have published widely differing estimates.²

The Senate Committee Report estimated, in a corrigendum to the report, that the income of the Catholic education system will be 15.2 per cent higher than expenditure on government schools and that the income of other non-government schools will be 52.2 per cent higher in 2004. DEST estimated that the income of Catholic schools will be some 20 per cent below that of expenditure in government schools and the income of other non-government schools will be on a par with expenditure in government schools.

The Senate Committee and DEST made similar estimates of the income of Catholic and other non-government schools in 2004 and both used the Australian Government School Recurrent Cost (AGSRC) to measure the expenditure of government schools. However, DEST adjusted non-government school income down in order to allow for differences between the measures of non-government and government school expenditure.³ These adjustments account for the large part of the disparity in the estimates of the future income/expenditure of the two school sectors between the two reports.

DEST removed capital expenditure from non-government school income because it is not included in the AGSRC. Non-government school income was also adjusted down by the difference between accrual expenses and cash expenditure in government schools and by an allowance to account for the exclusion of privately sourced funds from the AGSRC. In addition, the AGSRC was indexed a further year to 2005 to allow for the lag in its calculation and this had the effect of increasing government school expenditure for comparative purposes. There are also several other differences between the Senate Committee and DEST approaches relating to data and estimation methods.

This paper reviews the methodologies used by the Senate Committee and DEST to construct their estimates of future government and non-government school funding and makes alternative estimates.

¹ Senate Employment, Workplace Relations and Education Committee 2002, Education of Students with Disabilities, Appendix 6, December.

² The DEST estimates are published in a submission by the National Catholic Education Commission (NCEC) to the Productivity Commission: National Catholic Education Commission 2003, Submission to the Productivity Commission Review of the Disability Discrimination Act (Cth) 1992, Appendix B. Comments on the Senate methodology are also included in the Commonwealth Government's response to the Senate report:

Commonwealth of Australia 2003, Government Response to the Senate Employment, Workplace Relations and Education Committee's Report Education of Students with Disabilities, July, pp. 3-4.

³ The different methodologies are outlined in the Attachment to this paper.

School income and expenditure

A basic issue in comparing government and non-government school funding is whether to use income or expenditure data. All national measures of government school funding are based on expenditure. Non-government school funding is reported in both income and expenditure terms.

The Senate report compared estimates of future government school expenditure, as measured by the AGSRC, with estimates of the future income of non-government schools. DEST adopted a similar approach but adjusted its estimates of non-government school income by various expenditure items to make it more comparable to the AGSRC. Both estimates of future non-government school income are based on previous trends in private funding per student and State/Territory government funding per student published in the National Report on Schooling together with projections of Commonwealth funding that were provided separately by DEST.

Comparing funding of the two school sectors using expenditure for one sector and income for the other is likely to distort and mislead. Income is not a measure of actual expenditure.

First, income may be more than expenditure in any one year because of lags in the use of income. Income received in one year may not be spent in that year. Income cannot always be spent immediately and it may be used to build up reserves against future contingencies or for future projects. As a result, an income measure of non-government school funding may overestimate such funding in comparison with government school expenditure.

Second, expenditure may exceed current income because it is funded from past savings or by borrowing. Borrowing by schools means that total income is higher than that sourced from fees, donations and governments. It is clear that borrowing forms a significant component of the expenditure of many non-government schools. The Independent school sector, in particular, makes significant use of borrowing. For example, borrowing by Independent schools was \$453 per student in 2001, or nearly 5 per cent of total expenditure.⁴ Catholic school borrowing was \$165 per student, or 2 per cent of total expenditure. As a result, the income measure of non-government school funding may underestimate such funding in comparison with government school expenditure.

The net outcome of these two effects is that the published income measure for non-government schools is normally less than the total expenditure figure. In recent years, total expenditure by non-government schools for Australia has exceeded total income by an average of about \$145 per student.⁵ The difference was much more significant in the case of Independent schools, averaging about \$390 per student for Australia in recent

⁴ Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 2001*, Table 26.

⁵ These figures are derived from Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia, 1999 – 2001*.

years. However, Catholic school income has exceeded expenditure by an average of about \$40 per student in recent years.

Thus, the estimates of future funding of non-government schools by the Senate Committee and DEST are flawed because they are based on income rather than expenditure. They underestimate non-government school funding relative to government school funding because they do not include borrowing by non-government schools. The distortion is more significant in the case of Independent schools because they make greater use of borrowing than Catholic schools.

The estimates of future school funding provided in this paper are based on expenditure by government and non-government schools.⁶

Comparisons based on the AGSRC

Both the Senate Committee Report and DEST use the AGSRC as the base measure of expenditure on government schools. The AGSRC gives a much different estimate of government school expenditure than other commonly used national measures [Table 1].

The Ministerial Council on Employment, Education, Training and Youth Affairs (MCEETYA) and the Steering Committee for the Review of Commonwealth/State Service Provision have published cash-based and accruals-based measures of government school expenditure. The two cash-based series include capital expenditure but the MCEETYA series excludes superannuation while the Steering Committee series includes superannuation. Both accruals-based series use depreciation instead of capital expenditure but the Steering Committee series excludes capital charges, which are included in the MCEETYA accruals series.

The purpose of the AGSRC is not to serve as the measure of government school expenditure but as a basis to determine Commonwealth funding to government and non-government schools. It is a cash-based expenditure measure of recurrent expenditure derived from data compiled by MCEETYA on recurrent expenditure by State and Territory governments. It omits capital expenditure and superannuation expenditure.

The Senate Committee Report estimates of future funding levels are flawed because of the lack of comparability between the AGSRC and non-government school funding figures. In particular, non-government school expenditure data includes capital and superannuation expenditure, which are excluded from the AGSRC. These are significant components of total expenditure on schools and their exclusion affects comparisons of expenditure by government and non-government schools.

In passing, it should be noted that the DEST criticism that the Senate Committee report does not include capital expenditure by government schools is somewhat disingenuous. DEST failed to acknowledge that the non-government school income measure does not fully incorporate funding for capital expenditure. Borrowing funds a significant part of non-government school capital expenditure but it is not included in the income measure.

⁶ School funding is used in this paper as a generic term for expenditure and income.

Table 1: Government school expenditure by measure (\$ per student)

Exp. Measure	1998-99			1999-00			2000-01		
	Prim	Second	Total	Prim	Second	Total	Prim	Second	Total
AGSRC ¹	5056	6622	na	5378	7101	na	5657	7469	na
Cash recurrent ²	5057	6624	5664	5382	7017	6011	na	na	na
Cash excl. super ³	5331	6961	5962	5687	7416	6352	na	na	na
Cash incl. super ^{4 a}	5380	7150	6426	5712	7563	6804	na	na	na
Accrual excl. capital charges ^{5 a}	5574	7462	6672	5866	7729	6984	6148	8120	7344
Accrual incl. capital charges ⁶	6258	8328	7059	6585	8540	7344	6841	8889	7633

Sources:

1. States Grants (Primary and Secondary Education Assistance) Act 2000, Schedule 1 and States Grants (Primary and Secondary Education Assistance) Amendment Regulations 2002 (No. 1). As estimated for the purpose of determining Commonwealth payments to schools in 2000, 2001 and 2002.
2. Excludes capital expenditure. Derived from Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 1999, 2000*, Appendix 1, Table 27 (1999), Table 28 (2000), refer note (a).
3. Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 2000*, Appendix 1, Table 28.
4. Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 2001, 2002*, Attachment 3A, Table 3A.8 (2001), 3A.29 (2002), AusInfo, Canberra.
5. Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 2002, 2003*, Attachment 3A, Tables 3A.10 and 3A.31 (2002), Table 3A.7 (2003), AusInfo, Canberra.
6. Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 2000, 2001*, Appendix 1, Table 27 (2000), Table 23 (2001). Capital charges were applied only in Victoria, Queensland and the ACT.

Notes:

na: not available.

- a. The Steering Committee figures for primary and secondary schools are not provided on the same basis as the MCEETYA figures. The Steering Committee figures are for in-school primary and secondary school expenditure and do not include out of school expenditure such as central office costs. However, the total figures do include out-of-school costs.

Capital expenditure

The DEST approach to dealing with the omission of capital expenditure from the AGSRC is flawed because it excludes capital expenditure from both government and non-government school funding. In effect, it removes an item of higher expenditure by non-government schools and thereby distorts the comparison of expenditure between the two sectors.

Capital expenditure (or depreciation) should be included in comparisons of government and non-government school funding in order to obtain greater comparability of data. To exclude capital expenditure (or depreciation) is to discount the contribution that buildings and grounds make to education and this contribution differs between school sectors.

Capital expenditure is significantly higher in non-government than government schools. This is especially the case for Independent schools where capital expenditure is much higher than in Catholic or government schools and forms a larger component of total expenditure than in other schools. For example, capital expenditure in Independent schools was \$1565 per student in 2000 compared to \$799 in Catholic schools and \$347 for government schools. Capital expenditure was 17 per cent of total expenditure in Independent schools, 13 per cent of total Catholic school expenditure and 5 per cent of total expenditure in government schools.⁷

Thus, the DEST approach is biased. It removes a source of advantage for non-government schools from the comparison of future government and non-government school funding. It thereby underestimates non-government school expenditure in comparison with government school expenditure.

Superannuation expenditure

As noted above, the AGSRC does not include superannuation expenditure. The Quadrennial Administrative Guidelines do not state that superannuation is excluded. However, the cash-based expenditure data published by MCEETYA in the National Report on Schooling in Australia does not include superannuation. Oral advice from DEST indicates that superannuation is not included.

A comparison of the MCEETYA cash expenditure figures and the actual AGSRC amounts specified for each calendar year in the Regulations to the States Grants (Primary and Secondary Education Assistance) Act 2000 demonstrates that superannuation is not included in the AGSRC amounts. The methodology for calculating the AGSRC incorporates an 18-month lag so that the AGSRC for the final payments to non-government schools in 2000 was based on data for the 1998-99 financial year. The AGSRC amounts for 2000 were \$5056 for primary schools and \$6622 for secondary schools. The respective cash expenditure figures from the National Report on Schooling in Australia 1999 for 1998-99, excluding capital expenditure, were \$5057 and \$6624.

⁷ Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 2000*, Appendix 1, Table 28 (government schools) refer note (a), Table 32 (non-government schools).

Similarly, the AGSRC amounts for the final payments in 2001 were \$5378 and \$7101. The respective cash expenditure figures for 1999-2000 were \$5382 and \$7017.⁸

The exclusion of superannuation from the AGSRC suggests that further adjustments are needed to make non-government school expenditure more comparable to the AGSRC. The Senate Committee Report does not adjust its estimates for the fact that superannuation must be funded out of non-government school income but is not included in the AGSRC.

DEST appears to take account of this inconsistency between the two measures by adjusting non-government school income down by 11 per cent to allow for the difference between accruals expenditure and the cash amount for government schools. However, DEST does not explain the basis for this calculation and does not provide the data it used. Without this, it is not possible to reproduce the calculation or the final funding estimates.

It is not clear which accruals series was used by DEST to make its adjustment. If it used the MCEETYA accruals series, capital charges on government borrowing to fund government school education have been included in government school expenditure. However, a similar cost for government funding of non-government schools is not included as part of non-government school expenditure. This issue is discussed below.

It is also possible that there is an inconsistency in this calculation. DEST removes a component for capital expenditure from non-government school income to make it comparable with the AGSRC. However, it is not clear whether the figure for total accrued expenses used by DEST in adjusting for the difference between accrued and cash expenses in government schools excludes depreciation. If the accrued expenses figure does include depreciation, DEST has over-adjusted non-government school income downwards because it would have adjusted for capital-related expenditure twice.

Other limitations of AGSRC

The AGSRC also incorporates an 18-month lag. For example, the AGSRC for final payments in 2003 (that is, non-government funding in 2003) is based on expenditure in the 2001-02 financial year.⁹ This means that a comparison of the AGSRC for 2003 with total non-government school funding in 2003 is misleading and incorrect. This 18-month lag easily leads to confusion in making comparisons between government and non-government school funding when this measure is used for government school expenditure.

Another problem is that the AGSRC has become a derived cash expenditure figure since MCEETYA moved to an accrual financial reporting from 1999-00. Cash expenditure data

⁸ The discrepancies likely arise from the way the AGSRC is adjusted from year-to-year. As MCEETYA no longer reports cash expenditure, the AGSRC is calculated by applying the movement in the accruals-based expenditure to the previous cash-based expenditure. This was first carried out for the AGSRC estimate for 2001. Thus, the AGSRC is now a derived cash-based estimate. As such, it includes movements in superannuation expenditure but not the actual total expenditure.

⁹ Department of Education, Science and Technology, Quadrennial Administrative Guidelines 2003, Appendix G, p. 190.

is no longer published so the AGSRC is now calculated by applying the movement in the accruals figures to the previous cash expenditure figures.¹⁰ The actual basis of this calculation has not been published. Moreover, the growth in accruals expenditure appears to be lower than that of cash expenditure.¹¹

A further limitation of using the AGSRC to compare government and non-government school funding is that it is calculated as separate measures of primary and secondary school expenditure and is not available as a measure of total school expenditure. As a result, it is not possible to make simple comparisons of total school expenditure per student. These have to be developed by the complex process used by the Senate Committee report and DEST and then further calculations have to be carried out to obtain total expenditure per student.

The complexity of the estimation process necessary to adjust for the inadequacies of the AGSRC leads to other problems. Neither the Senate Committee report or DEST provide all the data used in their calculations or accurately source it. For example, enrolment data is not provided in either report. Nor do they fully reveal their estimation procedure. In particular, DEST fails to source its estimate of the disparity between recurrent expenses and the cash amount and to show how it adjusted non-government school income for the non-inclusion of privately sourced funds in government school expenditure figures. These and other such problems make it very difficult to re-produce the estimates.

For all these reasons, it seems desirable to consider other more readily available measures to compare government and non-government school funding. While each of these other measures has advantages and disadvantages, they all at least provide direct estimates of total expenditure per student.

Alternative measures of school funding

As noted above, there are four different national measures of government school expenditure – two cash accounting series and two accrual accounting series. Publication of the two cash accounting series stopped as of 1999-00.

There are also different measures of non-government school funding published by MCEETYA. It publishes both an income and an expenditure measure. As noted above, it is preferable to use the expenditure measure. This appears to be a combination of cash accounting and accrual accounting data in that it includes capital expenditure as an immediate expense and other expenses, such as workers compensation and long service leave provision, which are only included in the accrual accounting series for government schools.

¹⁰ Department of Education, Science and Technology, Quadrennial Administrative Guidelines 2003, p. 18. This new way of estimating the AGSRC was first carried out for the 2001 AGSRC and was based on 1999-2000 data.

¹¹ The growth of cash-based expenditure was more than one percentage point higher than the accruals-based rate over the two years for which both figures are available.

The existence of several different measures has created confusion about trends in school funding, about comparisons of expenditure between States and Territories and about comparisons of government and non-government school funding. Internal inconsistencies in some of the measures add to the confusion. This confusion bedevils public debate on school funding and makes it very difficult to establish common ground in comparing levels of school expenditure by different school systems and sectors. In particular, strict comparisons of expenditure between government and non-government schools are still not possible because of different financial reporting systems used for the two sectors. However, it is possible to make approximate comparisons and this is discussed below.

Cash-based series

MCEETYA series

The MCEETYA cash accounting series is not an accurate measure of the level of government school expenditure, mainly because it does not include superannuation expenditure. This exclusion invalidates comparisons of government and non-government school expenditure because the published expenditure data for non-government schools includes superannuation. Separate figures on superannuation expenditure in non-government schools are not published and so it is not possible to exclude this item from non-government school expenditure to make it comparable with the MCEETYA cash accounting data.

However, it should be pointed out that the MCEETYA cash accounting series provides the only basis for long-term comparisons of growth in government school expenditure over the last 15 years. The accrual accounting figures are available for only three years and the Steering Committee cash accounting series is available for only six years. The MCEETYA cash series provides a reasonably valid basis for the analysis of trends in school expenditure as long as the trends in the excluded items do not vary significantly from the overall trend.

In fact, the inclusion or exclusion of superannuation has little impact on overall growth rates in government school expenditure. It is not possible to estimate the trend in accruals but these form a very small proportion of total expenditure and therefore their inclusion or exclusion is unlikely to affect overall trends significantly.

In summary, the MCEETYA cash accounting series has fulfilled a key role. However, it is not fully consistent with modern accounting standards, is not a good measure of the level of expenditure and is not sufficiently consistent with the measure of non-government school expenditure. The series is no longer published by MCEETYA.

Steering Committee series

The Steering Committee cash accounting series provides a better estimate of the level of government school expenditure because it includes superannuation and, as such, is more consistent with the measure of non-government school expenditure. Capital expenditure is treated in the same way as for the non-government school expenditure measure. The availability of this data for six years provides a basis for short-term projections of future expenditure. However, publication of this series ceased as of 1999-00.

A problem in using this measure to compare government and non-government school expenditure is that there are differences in the way superannuation expenditure is estimated for the two sectors.

Superannuation expenditure can be estimated on several different bases. These include:

- a funding basis - the employer's contribution each year;
- an accrual basis – the liability incurred each year by the employer; and
- an emerging basis – the payment made to retired employees each year.

All state and territory governments except the Northern Territory have accounted for superannuation expenditure on an accrual cost basis for several years, although there may be differences in how that cost is estimated. It may have been estimated actuarially or using other methods and further information is needed on the method used by each jurisdiction as it is not clear from public sources.¹²

There appears to be no published information on how superannuation expenditure in non-government schools is estimated. It is likely that different schools account for superannuation on different bases and that the methods of estimating expenditure vary widely in the sector. As a result, there may be significant differences between approaches used in government and non-government schools, which are reflected as differing levels of superannuation expenditure.

This problem presents a case to exclude superannuation from comparisons of government and non-government school expenditure. This case is strengthened by the observation that different treatments of superannuation have little impact on the comparative resources and standard of education in government and non-government schools. However, estimates of superannuation expenditure in non-government schools are not available and it is therefore not possible to exclude superannuation from expenditure comparisons.

Finally, it is to be noted that differences between government and non-government school superannuation schemes are likely to progressively narrow in future years. The new superannuation schemes for government school staff provide reduced benefits in comparison with the old schemes and which are more similar to those that exist in the non-government sector. As more and more staff are employed under the new schemes, a source of higher expenditure in government schools will gradually be reduced in comparison with non-government school expenditure.

Nevertheless, this cash-based series provided a reasonable, though not precise, basis for comparing government and non-government school expenditure even though accrued expenses such as provision for long service leave are excluded from government school expenditure. The major items of capital expenditure and superannuation are treated in a broadly similar way.

¹² Steering Committee for the Review of Commonwealth/State Service Provision 1998, *Superannuation in the Costing of Government Services*, AusInfo, Canberra, p.9.

Accruals-based series

In theory, the accrual accounting measure provides a more accurate estimate of the level of school expenditure than the cash accounting based approach. It is based on modern accounting standards and overcomes the major deficiencies of measures based on cash accounting.

However, the published figures are plagued by inconsistencies between the accrual accounting approaches adopted by different governments.¹³ In particular, accounting for depreciation is often somewhat arbitrary, particularly where assets (such as land and buildings) are just as likely to appreciate as depreciate. As a result, there are major inconsistencies in the methodologies governments use to estimate depreciation with different approaches to the valuation of land and buildings, how often they are re-valued and the estimates of asset lives. In addition, several governments do not fully account for employer-related accrued expenditure such as provision for long service leave. The inclusion of capital charges in the MCEETYA accrual accounting series adds a further inconsistency because only two governments out of eight currently apply these charges.

The accruals series are not fully comparable with the measure used for non-government school expenditure. The non-government school expenditure measure appears to retain elements of both cash-based and accruals-based approaches. Many non-government schools still operate on cash-based financial accounting. Significant differences occur in the treatment of capital, accruals and superannuation and borrowing costs.

Capital expenditure and depreciation

The MCEETYA measure of non-government school expenditure and the accruals series for government school expenditure treat capital expenses differently. Non-government school expenditure includes all capital expenditure within each year whereas the accruals series for government schools accounts for capital expenses by depreciation of the total asset base.

There is a significant difference between the figures for capital expenditure and depreciation for government schools. For example, total capital expenditure in government schools was \$100 million more than depreciation in 1999-00.¹⁴ This was equivalent to about \$45 per student.

Such a disparity between estimates of capital expenditure and depreciation calls into question use of the accruals series to compare government and non-government school expenditure. The comparisons would be distorted because government school expenditure is artificially lowered relative to non-government school expenditure. As

¹³ Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 2002*, Tables 3.8 and 3A.24, AusInfo. See also, ACT Council of P&C Associations, *Improving the Measurement of School Expenditure*, Submission to the Inquiry on ACT Education Funding, October, 2002.

¹⁴ Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 2002*, Attachment 3A, Tables 3A.9, 3A.28, AusInfo, Canberra.

noted above, capital expenditure accounts for a much larger proportion of total non-government school expenditure than for government school expenditure.

Moreover, the different methods used by governments to estimate depreciation as noted above raise issues about the validity of the depreciation figure for government schools.

Other accruals

Differences in the extent to which accrual accounting is used and how accruals are estimated can have a significant impact on overall expenditure figures. For example, in 1999-00 accruals-based expenditure in government schools, excluding capital charges and adjusting for the above estimated difference between capital expenditure and depreciation, was about \$225 per student higher than cash-based expenditure, including superannuation [Table 1].

As a result, the comparability of the accruals based series and the non-government school measure will be affected by the extent to which non-government schools have adopted accrual accounting. If, as seems likely, a significant number of these schools have not adopted accrual accounting then non-government school expenditure is likely to be significantly under-estimated in comparison with government school expenditure.

In addition, it is not clear how other accruals, such as provision for leave, are estimated for non-government schools and how comparable the methodology is to that used for government school expenditure.

Borrowing costs

A third major issue that arises in using the accruals series is the treatment of capital charges.

The case for including these charges in government school expenditure is that these schools benefit from general government borrowing. The cost of this should be attributed to schools in the same way as costs of borrowing in the non-government sector. Interest payments on borrowing by non-government schools have to be paid out of their total funding and are included in data on non-government schools expenditure. Expenditure on debt servicing by non-government schools in 2001 was \$164 per student.¹⁵

However, there is also a case to exclude government sector capital charges from the comparison of non-government and government school funding.

First, the borrowing costs of government cannot be accurately or, indeed, even approximately hypothecated to different portfolios. Borrowing costs are incurred on debt incurred over many decades by governments and it is not possible to determine what proportion of that debt is due to expenditure on schools. The capital charges included in government school expenditure are purely notional and reflect an arbitrary allocation of

¹⁵ Estimate derived from Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 2001*, Appendix 1, Tables 4 and 25A.

the interest costs of general government sector borrowing to different portfolios. They are not necessarily an accurate reflection of the costs to government of supplying public education.

Second, schools are not responsible or accountable for this expenditure. Neither the Department of Education or government schools have any control over this cost. They are not permitted to borrow and therefore are not accountable for this expenditure. Central government borrowing is a matter of economic policy rather than education policy.

Third, only three out of eight State and Territory governments applied these charges in 2000-01 and one has since stopped this practice.

Fourth, debt servicing costs incurred by non-government schools reflect institutional advantages over government schools. Non-government schools are free to borrow to supplement current income. They are also able to increase fees and other charges to cover the cost of borrowing. Government schools cannot generally borrow or levy fees. Although governments can raise money from taxpayers, this is subject to political constraints and is not a choice that is available to schools in the same way that a non-government school can decide whether to raise fees or seek additional loans.

If capital charges on government borrowing are included as part of government school expenditure, they should also be included in non-government school expenditure because the government funding they receive includes a pro rata borrowing cost to government. It is a cost to government not included in the total funding for non-government schools.

This exclusion is significant as government funding accounts for nearly 60 per cent of total funding available to all non-government schools and for over 70 per cent of Catholic school funding. Table 1 shows that capital charges for government schools are about \$360 per student. The omission of similar charges for non-government schools means that expenditure is under-estimated by over \$200 per student for all non-government schools and by about \$250 per Catholic school student.

Thus, inclusion of borrowing costs in the comparison of government and non-government school expenditure presents a dilemma. Government school expenditure may be under-estimated in comparison with non-government school expenditure if no account is taken of government borrowing costs for government school education as non-government school expenditure includes significant borrowing costs. On the other hand, if account is taken of government borrowing costs for government school expenditure non-government school expenditure will be underestimated because it does not include the cost of government borrowing on government funding of these schools.

Conclusion

The shift to accruals-based financial reporting for government schools has not been accompanied by a similar change in reporting non-government school expenditure. The latter measure retains a strong cash-based component and it is arguable that the comparability of estimates has worsened as a result of the change.

A major item of school expenditure, buildings and other capital assets, is now treated differently in the two measures. Accrued liabilities are now included in government school expenditure and while this makes the two measures appear more comparable it is possible that many non-government schools do not fully account for accruals. Consequently, the change to accruals-based expenditure for government schools may have artificially increased government school expenditure in comparison to non-government school expenditure.

The inclusion of capital charges in the accruals series adds to the difficulty in comparing government and non-government school expenditure. Capital charges are included in government school expenditure on an arbitrary and selective basis and the borrowing costs of non-government schools do not include an attributed cost for government borrowing for government expenditure on non-government schools.

It should also be noted that the accruals series provides a very limited basis for projections of future expenditure because only three years data is available at present.

Overall, the Steering Committee cash-based series appears to provide a better basis at this stage for comparing expenditure on government and non-government schools. It treats capital expenditure on a similar basis to the measure of non-government school expenditure. It also includes superannuation, although there may be significant differences in how it is estimated for the two sectors. Non-government school expenditure could be adjusted to exclude debt servicing costs so as to improve comparability with this series. However, debt servicing costs are not published separately for Catholic and Independent schools.

While the Steering Committee cash-based series is no longer published, it is available from 1994-95 to 1999-00 and can be used to estimate future funding levels for government schools to 2004.

However, before using this series to make some projections on government school funding it is necessary to consider some other aspects of government funding for schools that are not taken into account in any of the expenditure measures.

Other issues of comparability

Fees and donations

As noted above, expenditure funded by private-sourced contributions such as fees and donations is not included in the estimates of government school expenditure. This reduces the comparability of measures of government and non-government school expenditure because the latter includes fees and donations.

DEST has adjusted its estimates of future funding to allow for this exclusion from government school expenditure. The nature of this adjustment is not explained.

There are several other considerations to be taken into account in adjusting for fees and donations to government schools.

First, it is difficult to obtain consistent data on fees and private donations for government schools. One estimate is that they account for about 5 – 7 per cent of total government school expenditure.¹⁶

Second, some significant forms of donations to non-government schools are not included in the expenditure measure or only partially included. Expenditures made on behalf of non-government schools by private individuals or corporations as in-kind donations do not appear to be included in the expenditure measure. These contributions can form a significant component of expenditure. For example, major benefactors of non-government schools, particularly Independent schools, often make in-kind donations such as funding a building or facility. Provision of IT hardware and software, IT networks and broadband access are often privately provided to non-government schools, especially in the case of Independent schools. Such contributions are not entered in the accounts of the school and therefore not included in the measure of non-government school expenditure.

Another form of in-kind contribution not included in non-government school expenditure occurs where the school shares buildings and grounds with another institution, usually a church, and the full capital and/or operating costs of the school are not recorded in the school accounts. For example, the associated church may have paid for a building or the grounds used by the school and may pay for some operating costs such as electricity and water rates because it is a shared facility.

The exclusion of such donated expenditure from non-government school expenditure suggests that to adjust only for fees and donations to government schools in comparisons of expenditure in the two sectors would be to create a further bias in favour of non-government schools. It would over-estimate government school expenditure in comparison with non-government school expenditure.

Other government assistance to non-government schools

Several forms of government assistance are not included in estimates of government funding of non-government schools and their costs are not attributed to non-government schools. These include taxation concessions, access to services provided by state and territory Departments of Education and the administration of government funding and public accountability arrangements. Non-government schools may also benefit disproportionately from transport subsidies for school students.

Tax deductions for donations

Tax deductions for donations to capital expenditure in non-government schools is a significant form of government assistance that is not included in published data on non-government school funding. Tax deductibility of donations provides an incentive for increased private contributions and, thus, higher total funding for non-government

¹⁶ Senate Employment, Education and Training Committee 1997, *Not a Level Playground: The Private and Commercial Funding of Government Schools*, July, Canberra, p.29.

schools. The cost of this incentive is the reduction in government income tax revenue below what would otherwise be collected. This cost should be included in estimates of non-government school expenditure.

Donations contribute about 7 per cent of total non-government school funding and it is estimated that about a third of these are funded by tax deductions.¹⁷

Access to government services

Another form of government assistance to non-government schools is access to professional resources such as resource centres and curriculum development resources free of charge. Non-government schools also have access to assessment services, such as Year 12 examinations and provision of UAI scores, funded by governments.

The costs of providing these services provided to non-government schools are not included in the measure of non-government school expenditure. Where separately identified, these costs are sometimes excluded from government school expenditure. However, in some cases they are actually included in total government school funding. As a result, total funding for non-government schools is underestimated while total funding for government schools is overestimated by this amount.

Administration of regulations and funding for non-government schools

The whole system of administration for government funding of non-government schools and ensuring public accountability for the quality of schooling is borne by the taxpayer. The costs are not attributed to non-government school expenditure. For example, registration of non-government schools and the approval of curriculum is provided free of charges. The administration of other public accountability requirements is also provided without charge. In other areas, the recipients of such government services are required to contribute to their cost, either partially or in full, on a 'user cost basis'. Similarly, administration of the funding arrangements for non-government schools is not included in estimates of non-government school funding.

This administration involves staff at both the state/territory and Commonwealth levels and involves significant costs. For example, a significant number of Commonwealth staff are involved in administering complex funding arrangements for non-government schools. In contrast, Commonwealth payments to government schools involve very little administrative cost as funds are handed over directly to state and territory governments.

The exclusion of government staffing and other costs for the administration of funding and regulatory arrangements for non-government schools from the measure of non-government school expenditure means that published funding data significantly underestimates the actual funding provided to non-government schools.

This effect is compounded because many of these costs are actually included in estimates of expenditure on government schools. While some governments exclude staff directly

¹⁷ Gerald Burke and Michael Long, The evolution of school funding: the ACT and Australia, Paper prepared for the Inquiry into ACT Education Funding, 12 December 2002.

identified as servicing non-government schools, others do not. Where staff are not identified in a specific function relating to non-government schools they are included in expenditure on government schools. As a result, government school expenditure is artificially increased while non-government school expenditure is underestimated.

Conclusion

Significant costs associated with non-government schools are not included in the measure of non-government school expenditure. Some government expenditure on non-government schools is actually included in government school expenditure. These omissions from non-government school expenditure are likely to be far more significant than the exclusion of fees and donations to government schools, especially as some non-government school costs are included in government school expenditure.

The adjustment made by DEST to allow for fees and donations to government schools without adjusting for other sources of funding and assistance to non-government schools is therefore arbitrary and selective. It results in a more favourable comparison of funding estimates for non-government schools relative to government schools.

Estimates of future expenditure

Comparative estimates of future funding for government and non-government schools can be made on the basis of trends in per student expenditure/funding. Comparative Australia-wide average per student expenditure figures for each sector are provided in Table 2.

Table 2: School Expenditure by School Sector, 1995-96 to 2000-01^a
(\$ per student)

School Sector	1995-96	1999-00	2000-01	Av. Growth per Year %
Government ^b	5456	6804	na	5.7
Government ^c	6672 ^d	6984	7344	4.9
Catholic	4785	6251	6740	7.1
Independent	7353	9251	9927	6.2
All Non-govt.	5632	7323	7908	7.0

Sources:

Steering Committee for the Review of Commonwealth/State Service Provision, *Report on Government Services 1998, 2002, 2003*, AusInfo, Canberra.

Ministerial Council on Education, Employment and Youth Affairs, *National Report on Schooling in Australia 1996, 2000, 2001*, Curriculum Corporation, Melbourne.

Notes:

- Non-government school figures refer to calendar years so that 1995-96 refers to 1996 and 2000-01 refers to 2001.
- Cash-based series, including superannuation, for 1995-96 to 1999-2000.
- Accruals-based series, excluding capital charges, for 1998-99 to 2000-01.
- The accruals figure in this column is for 1998-99.

Total non-government expenditure per student was 7.6 per cent higher than for government schools (cash series) in 1999-2000. Expenditure by Independent schools was

36 per cent higher than for government schools and 48 per cent higher than for Catholic schools. Government school expenditure was 8.8 per cent higher than for Catholic schools.

In the case of the accruals-based series for government schools, non-government school expenditure was 7.7 per cent higher than government school expenditure in 2000-01. Expenditure by Independent schools was 35.2 per cent higher than for government schools. Government school expenditure was 9 per cent higher than for Catholic schools. For this year, Independent school expenditure was 47.3 per cent higher than for Catholic schools.

The average annual growth rates since 1995-96 can be used to estimate comparative funding levels for 2003-04. These are provided in Table 3 as Estimate 1.

Total non-government school expenditure per student will be 14.1 per cent higher than for government schools (cash series). Expenditure by Independent schools will be 40 per cent higher than for government schools and 43.6 per cent higher than for Catholic schools. Government school expenditure will be only 2.6 per cent higher than for Catholic schools.

Table 3: Estimates of School Funding by Sector, 2003-04^a
(\$ per student)

School Sector	Estimate 1	Estimate 2	Estimate 3	Estimate 4
Government ^b	8493	8270	8493	8270
Government ^c	8477	8477	8477	8261
Catholic	8280	8280	8373	8373
Independent	11890	11890	11790	11790
All Non-govt.	9688	9688	9633	9633

Notes:

- a. Non-government school figures refer to calendar years so that 2003-04 refers to 2004.
- b. Cash-based series, including superannuation.
- c. Accruals-based series, excluding capital charges.

In the case of the accruals-based expenditure for government schools, non-government school expenditure will be 14.3 per cent higher than government school expenditure in 2003-04. Expenditure by Independent schools will be 40.3 per cent higher than for government schools. Government school expenditure will be 2.4 per cent higher than for Catholic schools.

Thus, the expenditure advantage enjoyed by non-government schools over government schools will increase further by 2003-04 according to these estimates. Catholic school expenditure will be only slightly below that of government schools. The current advantage of Independent schools over government and Catholic schools will increase slightly.

The government schools expenditure estimates are somewhat anomalous because the cash-based figure becomes higher than the accruals-based figure by 2003-04. This is due

to the lower growth rate of accruals-based expenditure. This was estimated over a shorter period than the cash-based growth rate but in the two years for which both figures are available the cash-based growth rate was over one percentage point higher than the accruals-based rate.

Estimate 2 uses a lower growth rate of 5 per cent a year for the cash-based government school expenditure series that is similar to the growth rate of the accruals-based series. On this basis, non-government school expenditure will be 17.1 per cent higher than government school expenditure by 2003-04. Independent school expenditure will be 43.8 per cent higher and Catholic school expenditure will be on a par with government schools.

The new funding arrangements for non-government schools operating from 2001 mean that future expenditure growth may differ from that between 1995-96 and 2000-01. Estimate 3 uses growth rates for non-government school expenditure derived from the DEST estimates of projected total income¹⁸ discounted by the estimated growth in enrolments in non-government schools.¹⁹ The average annual growth rates for Catholic, Independent and all non-government schools are 7.5, 5.9 and 6.8 per cent respectively. These projected growth rates are very similar to the average rates for the late 1990s.

Once again, it is apparent that total expenditure by non-government schools will be significantly above that of government schools in 2004 – 13.6 per cent in the case of the accruals-based series. Catholic school expenditure will be 1.2 per cent below government schools and Independent school expenditure will be about 40 per cent higher than that of government and Catholic schools.

The projected enrolments in non-government schools published in the National Report on Schooling²⁰ show a significantly higher average annual growth rate than those provided by DEST to the Senate Legislation Committee – 1.8 per cent compared to 1.2 per cent a year. If Estimate 3 is adjusted to take account of this higher enrolment growth, total non-government expenditure will be 11.7 per cent higher than government school expenditure (accruals-based).

The late 1990s was a period of relatively high growth in government school expenditure. Such high growth may not be maintained to 2003-04. Indeed, there is some evidence to suggest that expenditure increases by state and territory governments on government schools have slowed in recent years. Estimate 4 is based on average annual growth rates

¹⁸ National Catholic Education Commission 2003, Submission to the Productivity Commission Review of the Disability Discrimination Act (Cth) 1992, Appendix B. The estimated average annual growth rates for 2001 - 2004 are 8.6, 7.3 and 8.0 per cent respectively for Catholic, Independent and Non-government schools.

¹⁹ Derived from Commonwealth Department of Education, Science and Technology, Response to Question E493 21 February 2002, Senate Legislation Committee. The estimated average annual growth rates for 2002 - 2005 are 1.1, 1.4 and 1.2 per cent respectively for Catholic, Independent and Non-government schools.

²⁰ Ministerial Council on Employment, Education, Training and Youth Affairs, *National Report on Schooling in Australia 2001*, Appendix 1, Table 7.

in government school expenditure of 5 and 4 per cent for the cash-based and accruals-based series. The non-government school funding figures are those used for Estimate 3, that is, they are derived from funding projections supplied by DEST.

Total non-government school expenditure per student will be just under 17 per cent higher than for government schools (cash and accrual series). Expenditure by Independent schools will be 43 per cent higher than for government schools and 40.8 per cent higher than for Catholic schools. Catholic school expenditure will be just over 1 per cent higher than government school expenditure.

In summary, by 2003-04 non-government schools will have increased their advantage in total funding over government schools from about 7 – 8 per cent in 2000-01 to 12 – 17 per cent, depending on which projections of non-government school funding are used. A similar advantage is gained whatever measure of government school expenditure is used. Catholic school funding will improve relative to government school expenditure from 8 – 9 per cent below in 2000-01 to being on a par with government schools (being about one percentage point or so below or above government schools). Independent schools will increase their funding advantage over government schools from 31 – 36 per cent in 2000-01 to 40 – 44 per cent.

These estimates of future funding are significantly different to those of DEST. DEST estimates that in 2004, the Independent sector will be on par with government school expenditure and that the Catholic sector will be funded some 20 per cent below the government sector.

The above estimates are conservative. They are based on measures of expenditure that are constructed in such a way that non-government school expenditure tends to be underestimated in comparison with government school expenditure. In particular, they omit private in-kind contributions and several forms of government assistance to non-government schools. If adjustments were made to take account of these benefits, the non-government school funding advantage over government schools would be very much higher than the above estimates indicate.

In addition, these estimates do not take account of the different social purposes and needs of government and non-government schools and how these impact on relative costs. These issues are discussed below.

Differences in student need and social purposes

A key point that has been ignored in the current discussion of the various estimates of total funding for government and non-government schools is student need in the two sectors. Knowing whether government school funding is 10 – 20 per cent above or below total non-government school funding does not contribute a great deal to serious public debate without a consideration of the tasks, and resulting costs, faced by each sector.

At the end of the day, funding is a means to an end and that end is equity in school outcomes as manifested in the National Goals for Schooling. Funding is an important,

indeed a key, means to that end, but comparisons of total funding have little real meaning without an understanding of the relative levels of student need in the two sectors.

In general, student outcomes are highly correlated with a number of student background characteristics. On average, students from families of low socio-economic status (SES), students with disabilities, students in rural and remote areas and indigenous students have lower school outcomes than students from more privileged backgrounds. As a result, higher costs are associated with ensuring that the former group of students achieves adequate standards and a range of outcomes similar to that of more privileged students.

Government and non-government schools differ in the social composition of their enrolments. The enrolment of government schools has a much higher proportion of low SES students, students with disabilities and Indigenous students than is the case in non-government schools. For example, Indigenous students accounted for 4.3 per cent of government school enrolments and 1.4 per cent of non-government school enrolments in 2000. Students with disabilities accounted for 3.9 per cent of government school enrolments compared to 2.0 per cent of non-government school enrolments.²¹

Similarly, students from low SES backgrounds comprise a higher proportion of government school enrolments than in both Catholic and Independent schools.²² For example, students from the lowest three SES deciles accounted for about 35 per cent of government school enrolments in 1996 compared to about 25 per cent of Catholic school enrolments and 15 per cent of Independent school enrolments. In contrast, students from the three highest SES deciles accounted for about 25 per cent of government school enrolments, nearly 35 per cent of Catholic school enrolments and about 55 per cent of Independent school enrolments.

This pattern in the social composition of school enrolments means that government schools face higher costs than non-government schools in providing equitable student outcomes and these higher costs must be taken into account in comparing levels of funding between school sectors. The funding levels of government and non-government schools need to be weighted for these differential costs in order to compare the effective resource levels of the two sectors.

There is an extensive literature on the methodologies of weighting for student need which provides a sound basis for adjusting nominal funding levels for student need.²³ However, the data to make these adjustments is not readily available. It is possible to obtain estimates per student of costs of students with disabilities and Indigenous students but cost data is not available for students from different SES backgrounds.

²¹ Report on Government Services 2002, Tables 3A.12, 3A.14.

²² Dev Mukherjee, Socio-economic Status and School System Enrolments, Australian Centre for Equity through Education, July 1999. Available at: <http://members.ozemail.com.au>.

²³ See ACT Council of P&C Associations, Resourcing the National Goals for Schooling: Comments on the School Resourcing Taskforce Consultation Paper, April 2003.

When systematic provision is made for the under-enrolment of high cost groups of students in non-government schools, it will be clear that these schools are vastly over-funded in comparison with government schools. Preliminary work on adjusting for student need shows that non-government schools are much better funded than are government schools.²⁴

Government schools also incur higher costs because they have to meet other public obligations that are not required of non-government schools. For instance, the government sector must maintain a system of local schools to ensure reasonable access to schools for all students. Non-government schools have greater flexibility in determining their location so as to maximise use of school capacity and reduce costs. Adjustment for these differences in costs would extend the funding advantage of non-government schools over government schools.

²⁴ ACT Council of P&C Associations, A Fair Go for All Kids: Funding for Equity and Excellence in ACT Schools Part 1, Submission to the Inquiry into ACT Education Funding, July 2002.

Attachment

Methodologies Used to Estimate Future Funding Levels

1. Senate Report

The methodology used by the Senate Committee is outlined in Appendix 6 of its Report on the Education of Students with Disabilities, December 2002.

Estimates of Private and State/Territory Government Funding

1. The average annual increase in per capita funding is estimated for 1996-2000 by taking the difference between the two figures and dividing by 4.
2. This average annual increase is applied to Year 2000 per capita figures to obtain per capita estimates for 2001-2004. This is not actually stated but is implied and the projected per capita figures are not supplied in the report.
3. The projected per capita estimates are multiplied by enrolment projections supplied to the Committee by DEST to obtain total private and State funding figures.

Estimates of Commonwealth Funding

4. These estimates appear to be straight total Commonwealth funding for each sector rather than per capita estimates. The data is not supplied in the report. We do not have access to the data and do not know how it is obtained. Two requests have been made to the Secretariat of the Senate committee for these figures.

Total Catholic and Other Non-government School Funding

5. The total private, State and Commonwealth funding figures are added to obtain a total funding figure for each sector for the years 2001-2004.

Comparison with Government School Funding

6. The average annual increase in AGSRC per capita is estimated for 1996-2000 for primary and secondary schools. It is assumed that this is calculated by taking the difference between the two figures and dividing by 4 as was the case in estimating Private and State/Territory funding increases. That is, it is calculated as a dollar amount.
7. These average annual increases are applied to Year 2000 per capita figures to obtain per capita estimates for 2001-2004.
8. Projected enrolments for Catholic and Other non-government schools in 2004 are obtained from DEST answer to Senate Estimates Question E493 Additional Senate Estimates Hearing. The 2000 proportions between primary and secondary students are applied to the projected total enrolments to obtain primary and secondary school enrolments for both sectors in 2004. This enrolment data has been supplied by the Secretariat of the Senate Committee.
9. The projected AGSRC figures for 2004 are multiplied by the projected enrolment figures to calculate the total AGSRC funding figure that would obtain from those enrolment levels for each school sector.

10. These figures are then compared to the total projected income figures from all sources.

2. Department of Education, Science and Technology

The Government's response to the Senate Report states that DEST has re-estimated the future income of Catholic and Independent schools using the same underlying methodology as the Senate Report but adjusting for several factors. These are:

- under-estimates of private and state government income for Catholic and Independent schools;
- the exclusion of capital expenditure from the income of government schools;
- the exclusion of private income to government schools;
- conservative supplementation estimates for 2001-2004 government funding; and
- including more recent enrolment estimates.

Estimates of Private and State/Territory Government Funding

1. The average annual increase in per capita funding 1996-2000 is estimated by taking the difference between the two figures and estimating average annual compound growth rates. This is the appropriate method. However, in Appendix B, the Commission states that it estimates an average percentage increase. This is not what it did. The average percentage increases are higher than the average annual growth rates.
2. The average annual growth rates are applied to the Year 2000 per capita figures to extrapolate the figures for 2001-2004. This method yields higher estimates of private and State government funding per capita than the Senate method.
3. The projected per capita estimates are multiplied by enrolment projections supplied to the Senate Committee by DEST to obtain total private and State funding figures. DEST appears to indicate that it used a later set of enrolment projections than used in the Senate report. We do not have this data.

Estimates of Commonwealth Funding

4. These estimates appear to be straight total Commonwealth funding for each sector rather than per capita estimates.

Total Catholic and Other Non-government School Funding

5. The total private, State and Commonwealth funding figures are added to obtain a total funding figure for each sector.
6. In order to be directly comparable to AGSRC based estimates, capital expenditure is removed from the estimated total funding projections for 2004.
7. Capital expenditure projections are estimated by applying the annual percentage movement in capital expenditure for 1996-2000 to the 2000 figure. It is assumed that compound growth rates are estimated and not average percentage increases. This needs to be checked.

Comparison with Government School Funding

8. The average annual increase in AGSRC per capita is estimated for 1996-2002 for primary and secondary schools. This appears to have been done as a two-stage

process. The average compound growth rate for 1996-2000 was estimated and growth rates were also estimated for 2000-2002. Then, an average for 1996-2002 was estimated. Need to check how the calculation was actually done.

9. This average annual increase was applied to the AGSRC for 2002 to obtain per capita estimates for primary and secondary schools in 2004.
10. DEST states that the AGSRC figure for 2004 refers to government school expenditure in the 2002-03 financial year and that in order to maximise comparability of the figures an extra year of indexation should be applied. The AGSRC to be used in 2005 is calculated from 2003-04 financial year expenditure.
11. The AGSRC per capita figures are then multiplied by projected enrolment figures for the Catholic and Other non-government school sectors to estimate the total AGSRC based income. It appears DEST uses slightly later projected enrolment figures.
12. These figures are then compared to the total projected income figures from all sources.
13. DEST states that even when capital expenditure is included in government school expenditure or excluded from non-government school expenditure problems of comparability still remain because the AGSRC is a cash expenditure figure. It says that in the 2002 calculation of the AGSRC government school recurrent expenses were 11.1 per cent higher than the cash amount. It states that the projected funding for non-government schools should also be adjusted for this difference.
14. DEST also notes that privately sourced funds that are included in non-government school income figures are not included in government school funding estimates and makes an adjustment to take account of this.

3. Differences between methodologies

1. DEST uses more recent enrolment projections than the Senate Report.
2. DEST uses compound growth rates rather than dollar or percentage increases to measure the trend in funding over recent years.
3. DEST takes account of the lag in the calculation of the AGSRC. The AGSRC incorporates an 18-month lag. For example, the AGSRC for final payments in 2003 (that is, non-government funding in 2003) is based on expenditure in the 2001-02 financial year.²⁵ This means that a comparison of the AGSRC for 2003 with total non-government school funding in 2003 is misleading and incorrect.
4. DEST takes account of capital expenditure. The AGSRC underestimates expenditure on government schools because it does not include capital expenditure.
5. DEST makes adjustments to take account of the difference between the accruals-based and cash-based estimates of government school expenditure.
6. DEST makes an adjustment to take account of fees and donations to government schools that are not included in measures of government school expenditure.

²⁵ Quadrennial Administrative Guidelines 2003, Appendix G, p. 190.