

The Commonwealth's Role in Public and Private School Funding

A Submission by the Australian Education Union to the Independent Inquiry into the Provision of Public Education in New South Wales

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1 Commonwealth School Funding

1.1 History

Schools are not mentioned in the Commonwealth constitution and therefore became a residual state and territory responsibility. However, in the late 1960s there was considerable concern about the levels of resourcing in Australia's schools, and the Commonwealth, with its greater revenue raising capacity, took steps to raise them. This was seen as being in the national interest. It was able to do so constitutionally under a number of powers.

Initially it provided some money to encourage both public and private schools to build science laboratories, then school libraries. In the early seventies, when Gough Whitlam was Prime Minister, it began to provide recurrent expenditure to both private and public schools. This funding was based on three key principles:

- **A Primary Obligation to Public Schools**

The Commonwealth Act which established the Schools Commission and formalised Commonwealth funding to schools said it should have particular regard to:

The primary obligation, in relation to education, for governments to provide and maintain government school systems that are of the highest standard and are open, without fees or religious tests, to all children'. (Schools Commission Act 1973, Section 13 (4).)

This principle was also carried forward into the Employment, Education and Training Act 1988 (Part 111, Section 24 (2)), when the Schools Commission was abolished and the Schools Council formed. When the Howard Government abolished the Schools Council in 1999, this clause was conveniently lost and forgotten.

- **A Community Standard**

Throughout most of the 1970's, the 1980's and until 1993 most Commonwealth funding was based on a principle of seeking to achieve a common target standard for all schools in Australia, both public and private. In essence, this meant a system of Commonwealth support based on need. This target later became expressed as a Community Standard, and funding was directed to bring the least well resourced schools in both sectors up to this. In 1993 it was argued that all public schools had achieved this standard and so the community standard was replaced by the Average Government School Recurrent Costs (AGSRC).

The new Commonwealth funding formula for private schools introduced in 1992 included a "betterment factor" for those schools operating below AGSRC. This increased their grants in real terms each year so that by 2000 they would all be operating at at least the AGSRC (including private sources). This was delivered in full, but there has been no inquiry to ascertain whether it achieved its objective and if not why not.

- **Greater Equity**

In addition to the general recurrent funding provided on a needs basis, the Commonwealth also funded a number of programs, called targeted programs, designed to stimulate greater equity in schooling outcomes for Australian children.

These have included the Disadvantaged Schools Program, the National Equity Program, Indigenous education support programs, Students At Risk Program, and other programs aimed at those with special needs or who are educationally disadvantaged.

1.2 “Need”

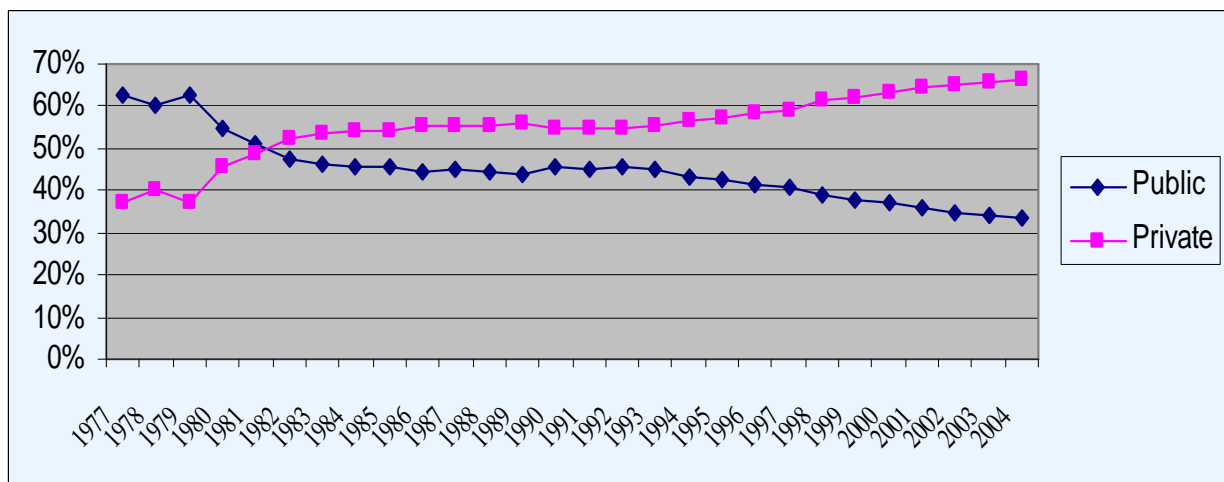
It should be noted that the definition of “need” therefore originally applied to schools in both sectors, but that it increasingly came to mean bringing private schools up to the standards of public schools.

It was at the very point where this was close to being achieved (2000) that Commonwealth policy underwent both the removal of the primary obligation to public schools and the fundamental changes discussed below. The main effect of Commonwealth funding is now therefore to exacerbate the resource advantage of the majority of private schools.

1.3 Share of Funding

Over time, the level of Commonwealth funding has increased in real terms, and the proportion of it going to private schools has also increased, as shown in Graph 1.

Graph 1 – The Share of Commonwealth Funding to Public and Private Schools 1977-2004

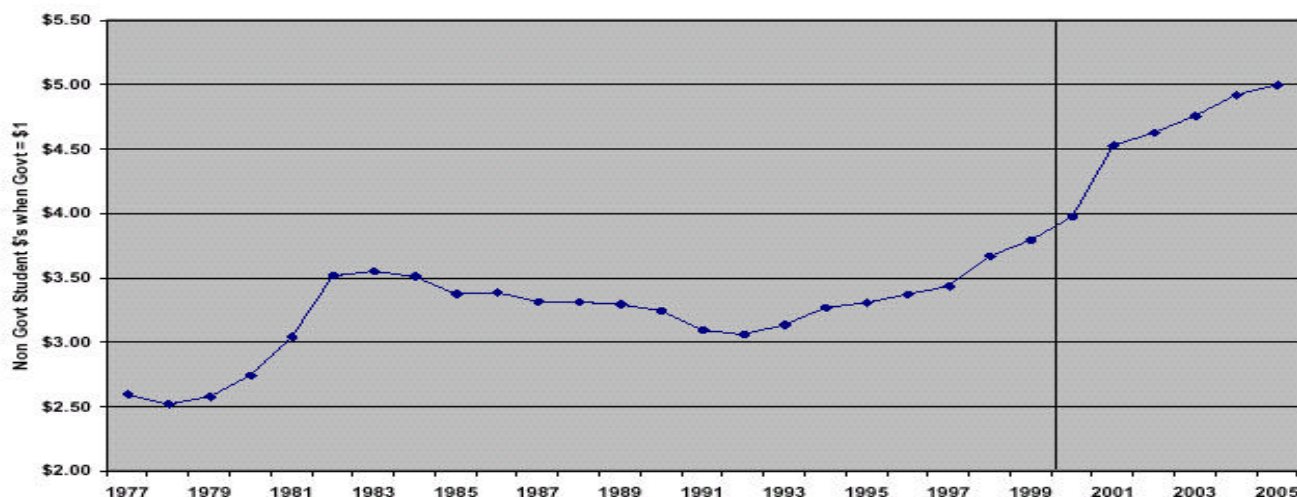


Source: Reports on States Grants Act and Senate Estimates Answers

The proportion of enrolments in private schools has increased. However, it is important to recognise that this is not the largest factor in the increased share going to private schools. As Graph 2 shows, the amount has increased considerably in per student terms.

Graph 2

Commonwealth Payments to Non Government Students: Ratio of Non Government Dollars Per Student to each Government Student Dollar



Graph originally produced by NSW Department of Education and Training

1.4 State and Territory Funding

It is difficult to obtain long term, consistent and comparable trend figures in relation to state or territory funding. However, there is every indication that the proportion of state or territory funding to private schools has also increased considerably.

NSW is one of the higher funders of private schools, and is the only state or territory where the amount (25% of expenditure on government schools) is legislated rather than determined on a budget by budget basis.

There are also many other subsidies to private schools besides direct grants, such as loan assistance, free or subsidised transport, and foregone taxes and rates. In some cases these parallel those to public schools, in others they do not, or they are more beneficial to private schools.

1.5 Changes as a Result of Funding

As a result of this steady increase in both the quantum and proportion of Commonwealth funding over time:

- a greater number of private schools now receive a greater proportion of their total income from government sources;
- few operate substantially below public school resource levels, and most appear to be operating above (including private income);
- there is a large increase in the number of private schools, and consequently their availability;
- to some extent they have been made more affordable;
- in other cases they are able to operate at even more superior resource levels.

2 The Changes Under the Howard Government

Since 1996, the Howard Government has introduced a number of radical changes to Commonwealth funding policy, including:

- the abolition of the new non government schools policy, which conditioned eligibility for funding;
- huge increases in funding to private schools;
- a new funding model biased to the more wealthy private schools;
- establishment grants to encourage the growth of private schools.

This has considerably exacerbated the changes noted above, and has added the following effects:

- a change from “needs based” funding to a concept of individual entitlement;
- no account is taken of the school’s income and private resources;
- a removal of any sense of using Commonwealth money to ameliorate difference in school resource capacity;
- encouraging the opening of private schools to the point where this is to a large extent supply rather than demand driven. The original notion that parents had a right to choose an alternative to public schooling has moved to one where there is a range of competing choices on offer from which they can select.

The result is that parents are now faced not only with a greater range of school governance choices, but also that these are overlaid with decisions about resource provision levels. More than ever before, parents are choosing not only the type of school they want for their children, but the level of resource provision over and above “the norm” as represented by public schools they are prepared to pay for.

3 Relative Position of Public and Private Schools

3.1 Private schools are “better off”

Notwithstanding the lack of hard data (see below) there is considerable reason to believe that private schools are generally “better off” than public schools.

It is important to recognise the significance of this. The rationale of private funding from its inception until fairly recently was based largely upon the fact that in general they were perceived to be operating at resource levels below those of government schools.

There are a number of ways in which schools might be compared, but a combination of factors make it reasonable to conclude that:

- including private income, most private schools operate at per student income levels above those of public schools;
- there are a number of private schools receiving government subsidies greater than the average for public schools in their state or territory;
- a comparison of like with like, taking into account such factors as student intake, location, size and so on, would reveal a majority better off including private resources, and a considerable number getting more government money.

In addition, the importance of new private schools with new facilities, or older private schools with superior facilities, compared with older public schools needing updating should not be underestimated.

The legacy of the Howard/Kemp era has created a situation in which the private school lobby, at least, argues that it is “entitled” to its “share” of government money even where schools are clearly operating at superior resource levels. Much of the debate is focusing on only that money coming from governments, ignoring private resources, and the concept of “entitlement” has become more dominant than that of needs based.

There is massive variation in funding levels within the private sector, and therefore exceptions can be found to any generalisations. There are also considerable variations both between the method and quantum of state or territory funding to private schools.

However, the total amounts going to each sector clearly show that on average private schools operate at higher per student expenditure levels, (see tables 1 and 2). This raises the issue of whether government funding is addressing the distributive affects of its policies within the private sector itself.

Table 1 – Funding to Australian Schools 2001-02

Source	Public Schools	Private Schools
Commonwealth	\$2039m (12%)	\$3605m (40%)
State and Territory	\$14953m (88%)	\$1532m (17%)
Private		\$3875m (43%)
Total	\$16992m	\$9012m
% of total	65.34%	34.46%

Source: Budget Paper No. 1, pp6-18 and 6-19, 2001

Table 2 – Per Student Income – Public and Private Schools

	Commonwealth	State	Private	Total
Government Schools	\$676	\$4,927	-	\$5602
Non-Government Schools	\$2,491	\$1,072	\$2,880	\$6,443

Source: Derived from 1998 National Reporting on Schooling

(Originally produced by NSW Department of Education and Training)

3.2 Catholic Systemic Schools

There would be some who would argue that the above does not apply to Catholic Systemic Schools. The AEU has been given figures which suggest that in NSW, Catholic Primary schools operate at 102% AGSRC and secondary at 115%. Therefore, the common perception of the “poor parish school” has become a myth, in NSW at least.

Since Catholic schools are by far the largest proportion of private schools, this has fundamental implications for understanding the relevant positions of the sectors.

Where it is argued that they are less well funded, there is a need to establish what effect previous funding boosts have had and why they have failed to bring them up to AGSRC levels.

3.3 Other “Poor” Schools

However, the creation of new schools which are themselves “poor” is a fact which must be dealt with through a funding policy. It is not in the government’s interest to create schools which are not able to sustain themselves economically.

4 Data Issues

There is a dearth of data on private school funding. The last worthwhile statistics on relative funding were produced in 1992 in a paper under the authorship of John Dawkins – “Funding Non Government Schools to the Year 2000”. This showed, for each of the 12 Categories under the ERI system, the income from the Commonwealth, state and territory governments, and private sources and how the total compared to that of public schools. (Appendix 1)

At that time, those schools in Categories 1-7 were on average, operating above public school levels, and measures were put in place by the then Labor government, through the “betterment factor”, to raise Categories 8-12 to the public school standard by 2000. Whilst this program was delivered in full, there has been no assessment of its impact and effect.

We therefore have no recent accurate evidence of the relative funding to schools.

The relevant data is collected by DETYA, and could and should be produced. Given the high level of public subsidy, there should be no argument against identifying the school in this data, but even producing it in summary form would add considerably to public accountability on this issue.

The data should identify public and private sources of income, and the proportion of each to the total based on figures compared to equivalent (or at least average) public schools.

Too many of the figures confuse the base – it is fine to say private schools get 17% of their funding from states and territories – but this is 17% of their greater funding. What does this mean in relation to what government schools get?

Therefore the desirable table might read “Compared to the average government school in NSW, NSW private school X gets 19% from NSW, 52% from the Commonwealth, and 65% from private sources.” Preferably, it would also indicate what it would receive if it were a government school.

There may be some need to improve the quality and accuracy of the data supplied by schools, as there is alleged to be considerable manipulation of the figures supplied.

This lack of basic data and homogeneity, the extreme complexity of schools funding, the fervency of private school advocacy, and the deliberate obfuscation by the Howard government, have made make it very difficult to conduct a rational debate about principles.

The AEU believes that a thorough analysis of the actual situation is an urgent requirement.

5 How Problems in Current Funding Mechanisms Benefit Private Schools

However, there are also a number of problems and anomalies with the current method of calculating funding which are contributing to superior funding of private schools, and which need adjustment.

5.1 SES Model

The problems with the SES model introduced by the Howard government have been well canvassed, and are elaborated in accompanying material. They include assessing the communities rather than the families from which the students come, ignoring the resources available to the school, and the number of schools not funded according to their SES but under an indexed ERI.

5.2 The Average Government School Recurrent Costs Index (AGSRC)

The Average Government School Recurrent Costs Index (AGSRC), which is the basis from which all private school funding comes is also fundamentally flawed.

In effect the AGSRC is calculated by taking the total costs of running government schools and dividing them by the number of students. This gives an average cost per student on a national basis. There is normally a differentiation between primary and secondary, and some costs which are considered unique to the government systems or which go directly to the private sector are excluded.

Private school funding is calculated as a percentage of the AGSRC.

The following problems exist with the AGSRC as a basis for funding schools:

- it appears to include a number of costs for factors used by both sectors;
- within government schools there is a wide variation in the funding of different schools even within one state or territory . For instance, figures in Victoria suggest that the ten “cheapest” schools to run cost just over \$5000 per student, whilst the ten “dearest” cost \$12 500;
- differences between states and territories are even greater. For instance, schooling in the NT is far more expensive;
- providing equitable education in small schools in isolated areas is much more expensive than in metropolitan areas. The recent CGC Inquiry into Indigenous funding put a figure of 75% extra for funding the same service in remote areas. This is mostly done through government schools;
- private schools under-enrol students from low income families, students of Indigenous origin, and students with disabilities, and tend to encourage “problem students” to move on, generally to government schools. These students are high cost students;
- the AGSRC includes money expended by states and territories for disadvantaged, special, and Indigenous students. However, private schools then receive additional amounts for such students;
- private schools are generally located in well populated areas, these are “low-cost” areas.

Therefore, as a national average of school costs the AGSRC is quite inappropriate as a basis for determining the funding for individual schools.

A clear example of the inappropriateness of the AGSRC as a funding mechanism is well illustrated by considering what would happen if the states and territories decided to give large funding increases to tackle the now well recognised under achievement of Indigenous students.

The effect would be to raise the AGSRC, and thus the recurrent funding for all private students! Considering that 84% of Indigenous students are enrolled in government schools, this must appear absurd.

5.3 Increased Level of Subsidy

Whilst exact data is not available, it seems reasonable to suggest that over 80% of schools now get 80% or more of their funding from governments. Measured as a proportion of AGSRC, rather than their income, the figure is even higher.

This has a serious implication. It makes concerns about the calculations of the AGSRC even more important. When the subsidy is only 20% or so of the total, its inaccuracy may not be that important. When we are talking about small per cent differences between schools it becomes very important.

There is a high degree of probability that the figures are so inaccurate that the margin of error is greater than the difference between them, and this works to ensure the majority of private schools are operating at higher per student levels.

Given the factors above, there is every reason to consider as valid an argument that:

- government schools are funded in a range from 75% to 125% of AGSRC;
- the vast majority of private schools operate at or above the AGSRC;
- if they were government schools they would be funded in the lower part of the range.

Therefore the perception that they are better off is very real.

6 Additional Points

6.1 Per student funding

Government schools do not operate from a per student basis. Rather a per student cost is calculated by seeing what it costs to run the system and dividing by the number of students. Obviously within this there is a strong enrolments basis, but nevertheless, most states and territories fund schools on the basis of thresholds triggered by enrolments – staffing formulae, deputy heads at x students etc. etc. Private schools, especially those with lesser assets, do operate on a per student basis, and this certainly poses considerable difficulty for them and is just another argument against having schools so funded!

6.2 “Savings”

Calculations of the alleged “savings” to governments from private schools are fundamentally flawed and greatly exaggerated. They assume that the “saving” is the difference between per student costs to government in public and private schools. Using this methodology, they claim figures over \$3 billion. However, the correct calculation would be based on how much governments “save” by not having private students in the public system. In reality any savings are only the marginal cost differences of not having those students in the government system.

In addition allowance must be made for:

- economies of scale;
- underutilisation of current government schools;
- duplication of services;
- “overheads” of competition, such as promotions officers;
- increased transport costs;
- other indirect support to private schools (eg. loan assistance).

The so-called “savings” may currently be in a range from zero to just over a billion dollars, and by 2004 the range will be from a negative saving, or cost to governments, of around half a billion through to a maximum of half a billion.

6.3 Primacy of Public Education

Provision of schooling does not start from a blank map, but from a government provided system. Because attendance at school is compulsory and because the government is obliged to provide free, universal and secular schooling, it is obliged to provide a system of schools available to all.

The most economic and socially just way to do this is through a system of schools each of which is accessible to any student, within the prevailing admissions (zoning or otherwise) policies. (Where it provides selective schools, it must still ensure that a cluster of schools operate to ensure that a school is available for everyone).

At any time, a student in a private system can demand a place in the public system, (through expulsion, disaffection etc.). In the wake of the Ansett and other corporate collapses, it is worth contemplating the effect of a large private school suffering financial collapse! Any students affected would have an immediate right to a place in a government school, and be welcomed there.

This underlines the fact that investment in public education remains a public asset whilst that in private education does not.

Therefore private students “opt out” of the system, and it is legitimate to consider and take account of the cost of this opting out.

Whilst slightly less than 70% of students are in public schools at the current time, it seems reasonable to suggest that well over 80% attend at some time. Therefore the quality of public schools is important to all.

6.4 Congruity with Other Policies

There is a growing disjuncture between Commonwealth recurrent funding of both government and non government schools and other policy areas. Priority is given in other schools funding to programs aimed at “at risk” students, poor literacy achievement, and retention, for instance, but the thrust of mainstream recurrent funding is increasingly favouring schools where there are few students with these characteristics.

Not only has the proportion of Commonwealth funding going to private schools compared to public schools increased over time, the proportion of Commonwealth funding going to provide recurrent funding compared to targeted equity programs has also increased.

It is legitimate to ask how this funding can more directly contribute to the broader policy priorities of governments.

7 Capital

7.1 Capital Assistance

Capital assistance from governments to private schools allow them to increase assets which they can use as collateral against further loans to build further assets.

7.2 Capital/Recurrent

“Recurrent expenditure” in schools contains long term elements – a school that is ten years old is better equipped than a new one, so the “capital” investment in schools is understated. Books, furniture, etc. etc. are purchased through recurrent expenditure although it has a useful life beyond the year in which it is purchased.

Commonwealth funding policy is built on assumptions that recurrent funding is expended in the year that it is allocated. There is no assumption of an accrual of assets. Thus there is insufficient concern for any mobility or volatility that it encourages. It is not a concern to DETYA if a student moves schools several times, or if they are foundation students at several new schools. Indeed, under the new establishment grants, the same student can theoretically be funded as a student in a new school every year!

8 Program Targets

Program targets attached to private school funding are extremely general, which is in contradiction to current orthodoxy. For example, the recent increases given to private schools were reportedly to lower fees and increase accessibility. However, there is nothing in the funding agreements to ensure this is what they are used for, nor measures put in place to assess the extent to which this is achieved.

This is not a recent phenomenon. For years, “poor” Catholic schools were given money to enable them to increase resourcing . However, there is considerable evidence much of it was used to create more “poor” Catholic schools. This is likely to be repeated with newer systems.

Unless Commonwealth money is tied to solving the problems it is intended to solve, much of it will continue to be used for other purposes.

Very few increases are given to public schools for unspecified purposes.

9 Internal Cost Shifting

Accountability measures for Commonwealth funding apply only to the funding itself. Private schools have the capacity to shift their own finances from those areas for which Commonwealth funding is eligible to other areas. Thus, whilst technically they cannot build facilities such as swimming pools with their SES windfall, they can cost shift their private resources from classroom activities to such facilities. The wealthier the school, and the less reliant it is on Commonwealth funding, the more it is able to do this.

Giving any money to a school should make it accountable for all money in the school, and maintenance of effort clauses and program targets should be used to ensure it is spent on areas of need.

10 What is Educational Expenditure?

The wealthier the school, the more likely it is to spend a lower proportion of its budget on matters directly related to teaching and learning. It is understood, for instance, that both Scotch College in Melbourne and Melbourne Grammar school, spend less than 45% of their incomes on “teaching”. The rest goes on such things as having three grounds people to look after the cricket wicket.

This raises issues about government subsidies, and particularly government increases to such schools. To what extent is the money in fact educational expenditure? If governments are giving money so that schools can spend on non-teaching matters (however defined), then should it be part of the education budget? This includes such things as school promotion costs and transport costs.

Principals salaries at some private schools are also considerably higher than comparable public school rates.

11 Operating Surpluses

A number of private schools have operating surpluses on a regular basis. This raises two issues:

- Should the consequent interest arising from the investment of these not be taken into account for future funding?
- Is it legitimate for governments to expend taxpayers money in a way which allows private interests to accumulate capital? There have been several cases where public school principals have been criticised for accumulating excessive reserves on the basis that the government allocated this money to current students.

12 Choice /Accountability

The greatest advantage that private schools have, besides extra funding, is the capacity to choose who they teach.

This raises a number of issues given that they are the recipients of considerable sums of public money. To what extent can and should this right to select be constrained through admissions policies (eg. ballots rather than school selection), and expulsion and exclusion policies that are compatible with those in the public system?

13 New Schools and the “Drift” to Private Schools

As mentioned above, the removal of the new schools policy has encouraged supply rather than demand driven growth in private schools. There are a number of private schools in financial trouble, and the impression is the instances of this are growing.

The AEU looked at the data around new schools in “Trends in New Non Government Schools 1996 -1999” which is in the accompanying material.

14 Conclusion

Commonwealth funding began in the early 1970s principally to bring all schools in Australia up to a desirable standard. Over time the effect of this funding has changed to the point where now the principal effect is to increase the resource disparity between private and public schools.

As a result, “choice” of school is increasingly also becoming a choice about both the extent of private contribution, and the level of resources provided.

There is no evidence that state or territory funding policies are counteracting the Commonwealth bias to private schools. Indeed the evidence is to the contrary.

Therefore, there is an increasing tendency, as a result of government policy, for public schools to be operating at basic resource levels, whereas the majority of private schools now operate at superior resource levels.

Coupled with the right of private schools to select whom they teach, there is a danger that public schools will become residualised, which itself encourages parents to seek to afford private education.

APPENDIX 1

**Funding Non Government Schools to the Year 2000 –
John Dawkins**

TAKEN FROM FUNDING ARRANGEMENTS FOR Non-Government Schools to the Year 2000
(Circulated by the Hon J S Dawkins, Minister for Employment Education and Training, February 19,1990.

TABLE 1

**Table 1:Projected Recurrent Expenditure in Non Government Schools
As a Percentage of the Community Standard, 1992 and 2000**

Funding Category	Projected Recurrent Expenditure in 1992 In Non-government schools as a % of the Community Standard				Average Annual Increase to get to 100% of the Community Standard over 8 years	Projected Recurrent Expenditure in 2000 in Non-government schools as a % of the Community Standard	
	Funding Source					Total	
	Commonwealth	State	Private	total			%
	%	%	%	%	%		
1	13	12	130	155	-	155	
2	17	16	99	132	-	132	
3	20	18	86	124	-	124	
4	26	19	62	107	-	107	
5	28	17	59	104	-	104	
6	31	20	53	104	-	104	
7	34	19	47	100	-	100	
8	37	21	37	95	0.6	100	
9	39	23	27	89	1.5	100	
10	41	21	25	87	1.8	100	
11	43	24	17	84	2.2	100	
12	45	23	14	82	2.5	100	