

# Do Private Schools Really Save Governments Money?

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**April 2001**

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One of the arguments used by the private school lobby to justify the extraordinary level of funding given to private schools is that parents who send their children to private schools “save” the government money.

For instance, The Australian Parents Council claims “non-government school parents and their communities save taxpayers \$3.4 billion per year, based on total real costs of educating students in government schools” (APC Review, v.26, n1, February 2000).

DETYA, in its role as propagandist for private schools, sought to add weight to this argument when producing the table which showed the massive increases for private schools under the SES model by including a column headed “Estimated taxpayer saving per school” ([http://www.detya.gov.au/schools/ses/All\\_Schools\\_Table.PDF](http://www.detya.gov.au/schools/ses/All_Schools_Table.PDF) ). Listed in this column were amounts which range up to \$ 4 300 and \$5700 per student in primary and secondary schools respectively.

However, it is clear that, even if one were to accept that, in strict economic terms, parents who send their children to private schools save governments money, (and ignored the social costs), such estimates as those above are greatly exaggerated nonsense and bear no realistic relationship to any real savings.

The extent of the exaggeration in the figures above is illustrated by looking at the claimed “savings” in relation to actual expenditure.

The following table summarises government expenditure on public and private schools in 1998/99, (Report on Government Services 2001 (SCRCSPP)).<sup>1</sup>

\$ bn	Public	Private	Total
State and territory	12.9	1.1	14
Commonwealth	1.5	2.5	4
Total	14.4	3.6	18

If the APC figure of \$3.4 billion “saved”, noted above, is added to the \$3.6 billion of government money already spent on private schools, this gives a total of \$7 billion compared to current expenditure on government schools of \$14.4 billion! It would then appear that in order to accommodate the 30% of students in private schools (which would mean an increase of just over 40% in government enrolments), government school costs would need to increase by nearly half!

Similarly, the total “savings” listed by DETYA for 2004 suggest that students in non-Catholic private schools would cost an extra \$1.3 billion, in addition to the \$1.5 billion of Commonwealth money they will receive (calculated from the same table), to this should be added at least another \$0.5 billion, from states and territories (which currently fund at about half of the Commonwealth rate). This means that it would cost at least an additional \$3.3 billion. Assuming that government school expenditure has

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<sup>1</sup> This includes capital of about 4%. This makes the calculated figures more conservative.

increased 20% due to indexation by then to \$17.3 billion, this means that it would cost an additional 19% to include the 11% or so of students in non-Catholic private schools.

Clearly such “savings” are based on flawed calculations.

Inherent in all the above methods of calculation are assumptions that a de facto voucher system should be in operation and that schools should be funded in ways more akin to private sector funding than public sector funding. The calculations generally take the average per student cost in government schools, subtract the average per student cost in private schools (or, in the case of DETYA, an individual school), and calls the resulting difference a “saving”.

Setting aside discussion on the adequacy of the Average Government School Recurrent Cost (AGSRC) as the basis for any calculations, this is still not an appropriate way of calculating the “savings”.

It assumes that individual students can leave the government system and be entitled to take their per student amount with them. Assuming governments did not respond by reducing resource standards in public schools, this would simply raise the per unit cost to government of educating the remaining students, creating an upward spiral in the per student amount which private schools would claim.<sup>2</sup>

It is true that most private schools, because of their dependence on student fees, think in per student costs terms. Indeed, not only is this one of the inherent disadvantages of a private school system, its inevitable transfer into the government system in order to make comparisons is one of the first ways in which private systems deleteriously affect public schools.

However, since what is being talked of is the “savings” to governments, it is clear that any calculations must be based on the ways in which governments calculate public school costs, not the way the private schools calculate their costs, or any arbitrary per student calculation.

The question that is being answered by the APC and DETYA is “How much more would private schools get if they were given a full per student voucher?” Even then they are getting the answer wrong. Using the per student type calculation that they are, the most that can be claimed is a “saving” in 1998/99 of \$2.57 billion.<sup>3</sup>

The correct question is, “How much do governments “save” by not having private students in the public system?” Alternatively, one could ask “How much more would it cost governments to include those students currently in the private system into the public system?”

Whilst there is considerable variation in the actual method, no state and territory governments fund their schools on a pure per student basis. An increase of a single student never leads to an increase in funding by the so called “per student” amount. Individual schools are funded on a range of factors which include

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<sup>2</sup> It also ignores the fact that total private school income, including from private sources, is around \$ 8 bn, meaning that on average they already have more income per student than public schools.

<sup>3</sup> Since it cost \$14.4 bn for the 70% of students in government schools, providing the same level of resources to students in private schools would cost \$14.4 divided by 70% multiplied by 30%, or \$6.17 bn. Subtracting the \$3.6 bn already paid leaves \$2.57 bn.

demographic, socio-economic, size and age factors, and several other variables as well. In many cases there are a number of thresholds at which schools receive additional teachers, additional deputy principals, additional resource teachers, and so on.

Therefore the cost of any student entering or leaving the system is a marginal cost, not a per student cost. Consequently, the “saving” by any student going into the private system is marginal, not per student. (This argument reflects that made, particularly by NSW, in relation to the alleged savings to states and territories which was the “justification” for the Enrolment Benchmark Adjustment (EBA)).

The cost of each extra student in any given situation will depend upon a range of specific factors, such as the numbers in particular classes, the degree to which any school is or is not crowded, and so on. It is not the intention here to calculate the cost of integrating each private student into public schools, merely to gain indications of what might be a reasonable claim for “savings” to government of the current private school system. State and territory education departments would be much better placed to make such calculations, and hopefully may be inspired to do so.

In 1998/99 educating 70% of students in public schools cost \$14.4 bn. The most it could have cost governments to educate all students at government per student levels is therefore \$20.57 billion. (\$14.4 bn divided by 70 multiplied by 100). Against this additional cost should be off set the \$18 bn already being spent, meaning a maximum overall increase of \$2.57 bn.<sup>4</sup>

However, in terms of savings to governments, a number of additional factors must be taken into account. For instance:

- 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).

It is also the case that in general private schools are located in cheaper to service geographic areas. The cost of providing the same level of service in rural and remote areas greatly increases the average cost of government schools. Private schools have much smaller proportions of the more needy, and therefore expensive to teach students. They select whom they teach, and therefore have considerably lower numbers of the more difficult, and therefore expensive, students. If public and private schools were compared on a like with like basis, many private schools would be seen to be receiving more funding.

The appropriate allowance for such factors is difficult to determine without detailed departmental data. However, it is understood that a variation of 30% in costs between schools is considered normal within departments.

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<sup>4</sup> This is in fact a different way of arriving at the same figure as that calculated above in footnote 3.

Given all the above factors, it seems reasonable to assume that actual costs would be reduced by at least 50% and in some cases up to 100%. In those cases where private schools are already receiving more government funding than like government schools, there would in fact be a saving to governments. Therefore the real “savings” are more realistically in a range from zero to \$1.28 billion. The highest figure would increase government school costs by less than 9%.

However, of course, most of the calculations above are done on figures prior to the windfall granted to private schools in the 2000 legislation. By 2004 private schools will be receiving over \$1 billion dollars more from the Commonwealth than in 1998. Even allowing for indexation at 40% means that they will receive \$600 million more.

The advent of establishment grants of \$750 per student for schools established after 11 May 1999 also adds to the costs to government of establishing new private schools and increases duplication and inefficient use of facilities.

It therefore seems reasonable to conclude that the so-called “savings” may currently be in a range from zero to just over a billion dollars, and that 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.

There appears to be no rationale for justifying any increased funding to private schools on the basis of the saved costs to governments.<sup>5</sup>

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Capital is not considered within this paper, since neither the APC or DETYA made reference to capital. Whilst the figures in the table include capital (which amounts to about 4%) this makes calculations more conservative).