

# NATIONAL PUBLIC EDUCATION FORUM

Friday March 27<sup>th</sup> and Saturday March 28<sup>th</sup>, 2009

## Session three: Improving the policy and funding frameworks for schooling

### The financial framework

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#### ***Introduction***

I've been asked to talk about schools finance.

My particular task is to segue from the previous sessions on changing contexts for public education to the next discussions of economic, social and educational policy, through an outline of the *financial framework* within which schools operate.

I'll give you some information on the current funding framework, some observations on how this all came about, a brief commentary on fundamental problems and some suggestions of where we should go from here.

I'll have to ask you to venture into what some have called one of the 'black arts' of education policy: i.e. making sense of the funding of public, Catholic and independent schools in Australia.

To do it, I'll have to work through a number of complexities, including decisions about, for example:

- how and when to use 'cash' accounting data (i.e. records of the flow of cash income and expenses), or 'accrual' data (i.e. records of when income is earned and when expenses are owed)
- Whether to use budget, financial year, figures or program, usually calendar year, data
- use of actual or 'current' year data or adjusting these for the effects of inflation; and, for the latter, choice of an appropriate index or deflator
- which sources of public information to use: Commonwealth and state budgets; Ministerial Council reports; Productivity Commission reports on government services;

I'll have to skate over some of these and other technical issues. My conscience is salved to some extent by fastidious-looking footnotes and references to sources in the Forum papers. If you are interested in these, my sympathies and check out these references.

I can also take some solace from the fact that however much the art of schools finance is clouded by technical issues, these don't compare with the difficulties inherent in measuring student learning, let alone assessing how much of this may be due to school performance. I can safely leave these matters to others.

A warning: because schools funding is a highly politically contentious area of public policy, its complexity becomes a political tactic in itself. So, public argument over funding frequently comes down to debate about issues of measurement, thereby deflecting attention from the underlying policy issues and the values they entail.

### Current funding framework

The most recent data on schools funding from public sources is 2006.<sup>1</sup>

These data report that over \$37 billion was spent on all schools in Australia in 2006<sup>2</sup>. This expenditure was around 3.5% of Australia's Gross Domestic Product at the time, close to the average in OECD countries<sup>3</sup>.

Governments, federal and state, funded just under \$31 billion, or 83%, of this \$37 billion. The remaining \$6 billion+, or 17%, was provided by parents and school communities. This private contribution was well above the OECD average.

But these figures vary across sectors.

**Table 1 and Chart 1** outline the data on total spending – recurrent and capital - in all schools by funding source.

	Government Schools		Catholic Schools		Independent Schools		Non-government Schools		All Schools	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Commonwealth	2,850	12%	3,425	53%	1,800	30%	5,225	42%	8,075	22%
State	20,665	84%	1,200	19%	680	11%	1,880	15%	22,545	61%
Total public	23,515	95%	4,625	72%	2,480	42%	7,105	58%	30,620	83%
Private	1,176	5%	1,800	28%	3,450	58%	5,250	42%	6,426	17%
<b>Total</b>	<b>24,691</b>	<b>100%</b>	<b>6,425</b>	<b>100%</b>	<b>5,930</b>	<b>100%</b>	12,355	100%	<b>37,046</b>	<b>100%</b>
% public		95%		72%		42%		58%		83%
Students	2,248,229		679,408		440,399		1,119,807		3,368,036	
%	67%		20%		13%		33%		100%	

**Sources:**  
MCEETYA, National Report on Schooling 2006, Tables 19, 22, 22A and 23  
Productivity Commission, *Report on Government Services 2009 (for 2006-07)*  
Australian Bureau of Statistics, *Schools Australia 2006*,  
Senate Employment, Workplace Relations, Small Business and Education Committee, *Not a level playing field: private and commercial funding in government schools, 1997*.

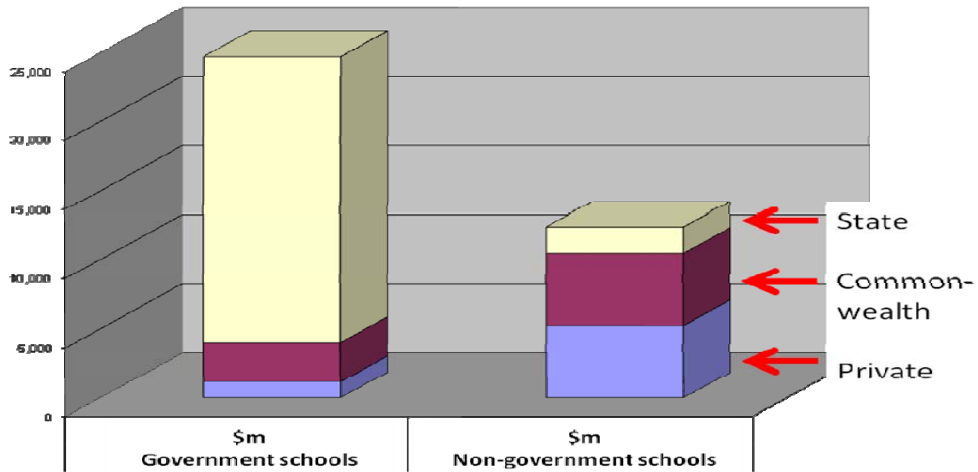
**Notes:** Excludes notional user cost of capital

<sup>1</sup> In fact, it is the 2006-07 financial year, in the Productivity Commission's Report on Government Services 2009, Part B, chapter 4; and the 2005-06 financial year, in the MCEETYA, *National Report on Schooling 2006, Statistical Appendix*.

<sup>2</sup> In today's prices, this would be closer to \$42 billion, but I'll stay with 2006 figures for this paper.

<sup>3</sup> MCEETYA, *National Report on Schooling 2006*, Table 21; OECD, *Education at a Glance 2007*, Table B2.4.

**Chart 1: Schools funding 2006 \$m**



First, consider funding of Australia's 6,900 public schools.

Of the total of some \$24.7 billion spent on public schools in 2006, all but just over \$1 billion was provided by governments.

State governments provided the bulk of this: almost \$21 billion, or 84%. The Commonwealth provided less than \$3 billion, or 12%.<sup>4</sup>

(These proportions changed following two major interventions by the Rudd Government in the last few months. I'll come to this presently.)

The remaining 5% was from parents' and schools communities' voluntary contributions and donations.

These relative contributions are quite different for non-government schools.

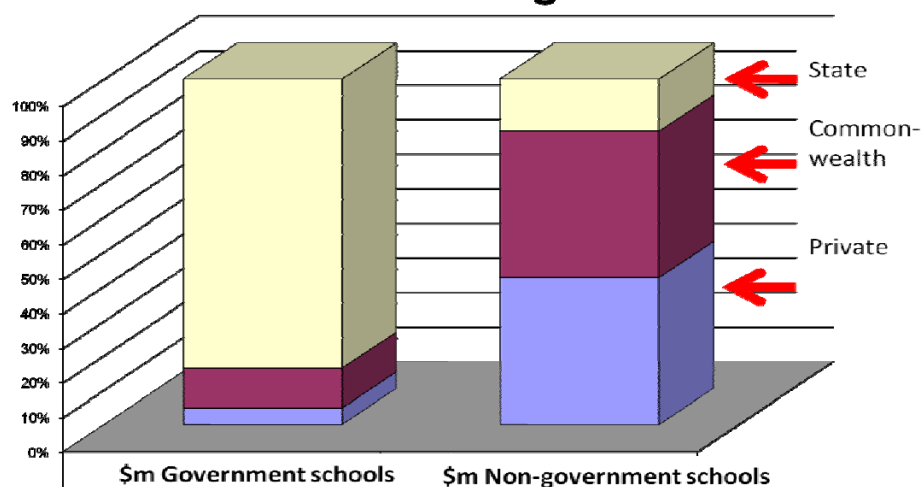
In 2006, governments funded 58% of total funding in non-government schools overall – just over \$7 billion. The Commonwealth, just over \$5 billion or 42%; the States, almost \$2 billion or 15% of total funding on non-government schools.

Tuition fees, charges, donations and other income from private sources provide a further \$5 billion+, to bring the total level of funding in non-government schools to over \$12 billion.

The obverse relationship in the balance of public funding responsibilities for public and private schooling between the Commonwealth and state governments is evident from these figures, which are also outlined in Charts 1 and 1A.

<sup>4</sup> These are rounded figures; some differences due to rounding may be found in the tables.

**Chart 1A: Schools funding 2006 %**



This is one of the key, and intractable, problems for schools funding policy in Australia. It goes by a rather disturbing description: vertical fiscal imbalance, or VFI.

It means that private schools have become increasingly financially dependent upon the national government, while public schools are subject mainly to the declining financial capacities of state governments.

Some might say that these circumstances have come about by default. I'm not so sure: the former Prime Minister and his education ministers certainly acted on the assumption that public schools were the responsibility of state governments, while the Commonwealth had a 'special role' in fostering the growing private sector.

The present federal government prefers to talk about policy 'indifference' between public and private schools, and to focus on the needs of schools without regard to sector. It's true that public schools would benefit from 'needs' funding, at least in proportion to relative sectoral enrolments. But a 'washing of hands' of specific responsibility for public schools by the level of government with the highest revenue capacity means that the underlying problem of VFI remains.

The former federal government used to rail against the 'politics of envy' whenever unsavoury funding comparisons between the sectors were made. We seem to have moved instead from the 'politics of envy' to the 'politics of ennui'.

The VFI problem has become critical, mainly from the behaviour of the former federal government.

Let's have a look at funding trends over the period of the Howard Government.

**Table 2 and Chart 2** outline these trends, over the period 1996 to 2006, for which financial data are publicly available.

**Table 2: Schools funding 1996 and 2006**  
 - per capita funding: est 2006 prices

	Catholic schools				Independent schools				Government schools (AGSRC+capital)			
	1996	2006	Increase		1996	2006	Increase		1996	2006	Increase	
State grants	\$1,494	\$1,776	\$282	19%	\$1,310	\$1,539	\$229	17%	\$6,234	\$7,643	\$1,409	23%
Cwth grants	\$3,456	\$5,042	\$1,586	46%	\$2,209	\$4,097	\$1,888	86%	\$801	\$1,057	\$255	32%
Private income	\$1,972	\$2,638	\$666	34%	\$6,950	\$7,824	\$874	13%	\$330	\$403	\$72	22%
<b>Total</b>	<b>\$6,922</b>	<b>\$9,456</b>	<b>\$2,534</b>	<b>37%</b>	<b>\$10,468</b>	<b>\$13,460</b>	<b>\$2,992</b>	<b>29%</b>	<b>\$7,366</b>	<b>\$9,103</b>	<b>\$1,737</b>	<b>24%</b>
% government schools	94%	104%			142%	148%			100%	100%		

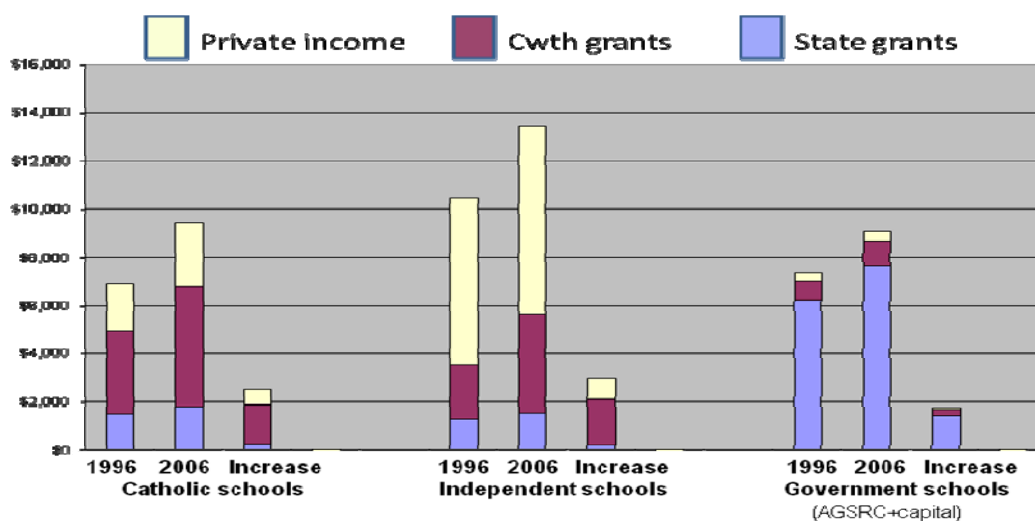
**Sources:**

National Report on Schooling, 1996 Table 15; 2000 Table 32; 2006 Table 23  
 Senate Estimates, Qn No. E997\_06 and Quadrennial Administrative Guidelines 2006 update.

**Notes:**

The government schools figures are an aggregate of AGSRC (recurrent) and per student capital investment in government schools.  
 The figures for Catholic and independent schools include income data for both recurrent and capital purposes.

**Chart 2: Per student funding 1996-2006**  
 (Constant Yr 2006 prices)



They do so by looking at per student funding, thereby taking out of the equation the effects of enrolment changes. They also present the data in estimated constant Year 2006 prices, thereby providing a picture of the 'real' increases over the period.

These data compare per student funding in Catholic, independent and government schools.

The figures for Catholic and independent schools are taken from the National Reports on schooling for the respective years, adjusted for inflation in schools.

Assessing trends in funding of government schools over this period, however, is fraught with serious technical problems. These are due mainly to the decisions of governments to report on schools' finance in accrual terms from the Year 2000, making comparisons with previous years, which were reported on cash accounting conventions, difficult.

What I have done here is to work from the Commonwealth's calculation of Average Government Schools Recurrent Cost, or AGSRC. This is a 'cash accounting' calculation, lower than the accrual figures currently published in national reports. Because of this, some commentators and advocates will contest the use of AGSRC and argue that it understates funding of government schools. Some of this commentary is probably correct, such as provisions for superannuation and staff leave which are not included in AGSRC figures. Other 'accrual' elements, such as the 'user cost of capital' and depreciation of assets, are more arguable as being relevant for comparisons between sectors.

At the same time, the data in national reports don't include costs for government of such things as student transport assistance, tax rebates and exemptions and the provision of curriculum and assessment systems and support. Although these services are provided for students in both sectors, it is likely that non-government schools and parents receive more than their enrolment share of the benefits from them.

But I can be confident that the trends in AGSRC over time are broadly representative of movements in State government funding of government schools<sup>5</sup>. As this is the only way to present the data on a comparable basis, I have used AGSRC figures here.

AGSRC is a measure of recurrent resources in public schools. I have also calculated per student funding of capital works from all sources, drawn from national report data, and added these to the AGSRC data to produce a composite figure for per student funding of government schools in 2006. This enables some comparison with the data for non-government schools, which includes both recurrent and capital funding.

### ***Some conclusions from the data***

On these understandings, what do the tables tell us?

The first thing to say is to acknowledge that per student funding increased over the period in all sectors, but at different rates.

In 2006, each student in an independent school, on average, was receiving funding from all sources some \$3,000, or 29%, higher, in real terms, than in 1996. This was due mainly to the 86% increase in Commonwealth funding of independent schools over the period. The total level of funding per student in the independent sector, around \$13,500, was almost one-and-a-half times the levels in both the Catholic and government school sectors.

Some care in the use of these data, however. Over the ten-year period to 2006, the number and proportion of lower-fee and higher publicly-funded independent schools, such as the growing number of low-fee Christian schools in outer metropolitan areas, has changed the composition of schools in the independent sector. So the comparison here is with the sector as a whole, whose characteristics have changed.

It is also the case that the independent schools sector overall enrolls a higher proportion of secondary students than in the public and Catholic systems. Per student costs in secondary schools are generally higher than those in primary schools.

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<sup>5</sup> See Commonwealth of Australia, *Quadrennial Administrative Guidelines – 2008 update*, pp260-1 for an explanation of the AGSRC calculation. Note that Commonwealth grants are removed from the year-on-year calculation: but most of the Commonwealth's recurrent funding is through the general recurrent per capita grants program, for which the only increases over the period were for AGSRC indexation.

But the overall funding level of the independent schools sector in 2006, at almost \$13,500 per student, is still high in comparison with the other sectors.

And: we know that some of the highest relative increases in Commonwealth funding arising from the introduction of the socio-economic status (SES) scheme for general recurrent grants in 2001 were paid to some of the best-resourced independent schools in Australia.

The highest rate of increase in per student funding, at 37%, or just over \$2,500, was for Catholic schools. Again, this was due mainly to increases in Commonwealth funding of 46%. But the 34% increase in fees and other forms of private income for each Catholic school student is significant, both generally and for the Catholic sector in particular<sup>6</sup>.

The lowest level of increase – at just over \$1,700, or 24% - was provided for each student in a public school. State governments provided the bulk of this increase at just over \$1,400 per student. The higher rate of increase in Commonwealth grants, at 32%, was probably due to a significant extent to the one-off increased funding for capital works provided through the former *Investing in our schools* program.

The second broad point to make is that there now appears to be a clear distinction between the resources available to students in the Catholic and public systems, with broadly comparable overall resources, and those in independent schools. By 2006, the latter schools were operating on average at almost 150% of the total funding of Catholic and public school systems<sup>7</sup>.

Note, however, that these are financial data only, and do not take into account the differing social compositions within the three groups of schools, with public schools catering for a disproportionate share of students with special needs.

These funding figures are also outlined in Chart 2.

Recent funding decisions by the Rudd Government will change these trends and comparisons. Over the past few months, that Government has provided an additional \$3.5 billion over five years for the schools package agreed through the Council of Australian Governments and a further \$14.7 billion over three years for new capital infrastructure in schools under the stimulus package in response to the Global Financial Crisis.

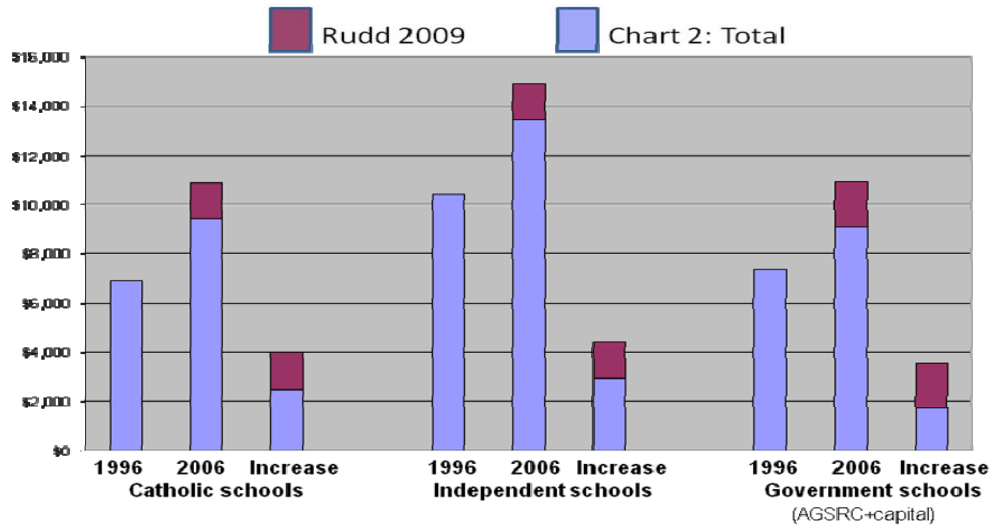
The estimated effect of the packages on funding trends is set out in **Table 2A and Chart 2A**.

<b>Table 2A: Schools funding 1996 and 2006 + Rudd interventions per capita funding: est 2006 prices</b>									
	Catholic schools			Independent schools			Government schools (AGSRC + capital)		
	1996	2006	Increase	1996	2006	Increase	1996	2006	Increase
<b>Chart 2: Total</b>	<b>\$6,922</b>	<b>\$9,456</b>	<b>\$2,534</b>	<b>\$10,468</b>	<b>\$13,460</b>	<b>\$2,992</b>	<b>\$7,366</b>	<b>\$9,103</b>	<b>\$1,737</b>
<b>Rudd 2009</b>		\$1,456	<b>\$1,456</b>		\$1,456	<b>\$1,456</b>		\$1,849	<b>\$1,849</b>
<b>Total</b>	<b>\$6,922</b>	<b>\$10,912</b>	<b>\$3,990</b>	<b>\$10,468</b>	<b>\$14,916</b>	<b>\$4,447</b>	<b>\$7,366</b>	<b>\$10,951</b>	<b>\$3,586</b>
Gap from AGSRC	-\$444	-\$40		\$3,103	\$3,964		\$0	\$0	
%	94%	100%		142%	136%		100%	100%	

<sup>6</sup> Some Catholic systems have expressed concerns about these trends, e.g. Catholic Education Commission of Victoria, *The Affordability of Catholic Schools in Victoria*, 2004, as part of argument for even higher levels of public funding.

<sup>7</sup> See above discussion of AGSRC as a measure of public schools' funding.

**Chart 2A = Chart 2 + Rudd increases**



These data simply add the highest annual increase arising from the Rudd Government initiatives to the 2006 funding levels – which, of course, can't strictly be done as the new moneys have yet to be spent – but when you do this it gives a sense of the impact of the increases on the overall picture. They show the effect of the Rudd interventions on overall per student increases across all sectors.

The increases for government schools from both the COAG and GFC decisions are projected to amount to just under \$1,850 per student in one of the years of the new programs. This compares with projected increases in both Catholic and independent schools of around \$1,450 per student.

The result: Independent schools would still receive the highest levels of overall funding increases, at about 42% higher in real terms than in 1996, compared with the 29% in Table 2 and Chart 2.

Government schools would now receive increases of just under 50%, compared with the 24% increases in Table 2 and Chart 2. Overall funding in Catholic schools would increase by 58%, compared with 37% in Table 2 and Chart 1.

Chart 2A also suggests that adding the future Rudd increases to the 2006 funding per student figures brings government schools and Catholic schools up to the overall real per student funding levels enjoyed by independent schools in 1996.

But the overall augmented 2006 figures at almost \$15,000 per student for independent schools would continue to be much higher than the around \$11,000 per student in public and Catholic schools: a differential of 136% compared with the 'pre-Rudd' figure of 150% in Table 2 and Chart 2.

These differences between sectors are significant, even allowing for the higher proportion of secondary students in independent schools, as noted previously.

Remember, however, these '+Rudd' figures can't really be added to 2006 figures. They only provide an estimate of the potential impact of the reported trends. And, keep in mind that the increases are for a set period and are not guaranteed for the future.

## ***Policy history and implications***

How did we get to this funding situation?

I don't have time for a complete history lesson here<sup>8</sup>. What can be said is that the overall funding framework for the Commonwealth established by the Whitlam Government in 1974, arising from the 'needs of schools' settlement put forward in the Karmel report, remains structurally in place.

Since then, the course of political argument around 'needs', 'entitlements', 'choice' and 'investment in economic and social development' have led to changes in the balance of funding for Catholic, independent and government schools. They have also led to funding anomalies and dysfunctions.

For example:

- the minimum level of Commonwealth general recurrent grants for the least-funded private schools – those with the highest SES scores – is set at 13.7% of AGSRC; while the per capita grants for all government schools is 10% of AGSRC.
- over half of non-government schools (60% of Catholic systemic schools) are still being funded at the level they would be receiving if the funding scheme adopted by the Hawke and Keating governments was still in place, under 'funding maintained' and 'funding guaranteed' commitments inherited from the Howard era; and
- while most States provide differential recurrent funding for non-government schools based on the resources available to each school, the Commonwealth continues to assess need for general recurrent grants without consideration of the resources each school enjoys.

Suffice it to say that the current system is arbitrary, dysfunctional, irrational and partial.

There is no agreement on, or even much debate about, the relationship between what levels of public funding might be appropriate for schools with widely varying levels of funding and resources from private sources.

Most importantly, there is no agreed set of funding principles and no understanding of which of the funding partners – Commonwealth, state and private – is responsible for what level of funding being provided for each school.

## ***Policy directions***

What to do?

We could start by getting a better understanding of what the current level of funding is doing.

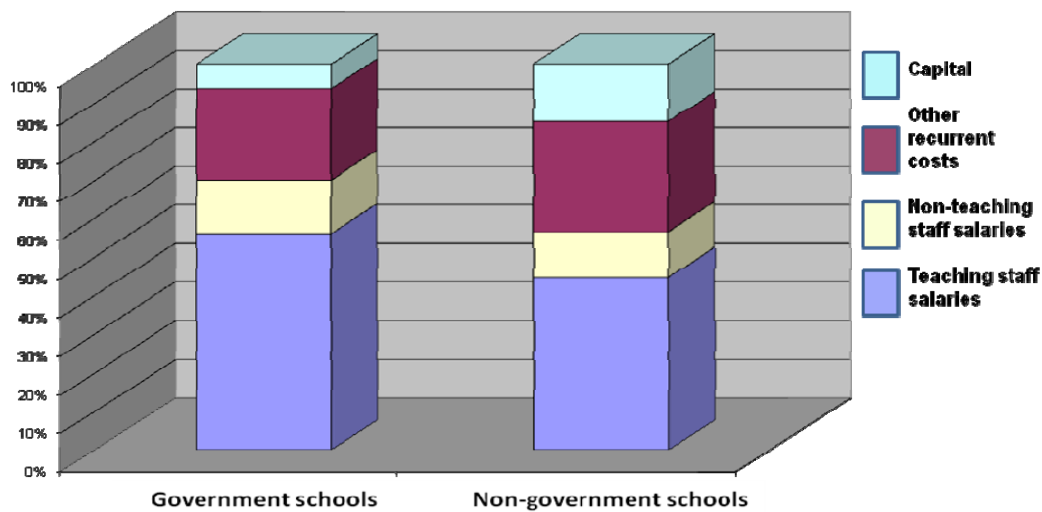
**Chart 3** outlines proportional spending on schools in 2006. In public schools, some 56% of the \$24 billion spent by governments in 2006 were required for teacher salaries and salary-related expenditure. Another 14% was spent on salaries for non-teaching staff and a further 24% on non-salary operating costs; leaving around 6% for capital expenditure<sup>9</sup>.

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<sup>8</sup> See Gerald Burke and Michael Long, *The evolution of school funding: the ACT and Australia: Paper prepared for the Inquiry into ACT Education Funding*, Centre for the Economics of Education and Training, Monash University, December 2002; and Ian Wilkinson, Brian Caldwell, R J W Selleck, Jessica Harris and Pam Dettman, *A History of State Aid to Non-government Schools in Australia*, Department of Education, Science and Training, Canberra, September 2006.

<sup>9</sup> MCEETYA, Annual National Report on Schooling 2006, Statistical Appendix, Tables 19, 22 and 22A.

**Chart 3 = Expenditure on schools 2006 (%)**



The proportions of these components are quite different in non-government schools. Teacher salaries are again the largest item, but at around 45% of total expenditure, compared to 56% in public schools. Non-teacher salaries were just under 12%. Expenditures on non-salary costs (29%) and capital costs (15%) were significantly higher proportions than in public schools.

The final funding point I would like to make here is that we have long reached the stage where governments – Commonwealth and State – when taken together are providing sufficient public funds to pay for the costs of teaching staff in all our schools.

We know, of course, that governments are funding the teachers in our public schools.

But as can be seen from **Table 3 and Chart 3A**, funding from Commonwealth and State governments in 2006 when taken together provided just over \$7.1 billion to non-government schools across Australia.

<b>Table 3 Funding teachers in non-government schools 2006</b>			
	<b>\$m</b>		
<b>Funding from public sources:</b>		<b>Expenditure on teaching</b>	
Commonwealth	\$5,230	Teaching staff salaries	<b>\$5,760</b>
State	\$1,880	teaching staff-related costs	\$840
	<b>\$7,110</b>		<b>\$6,600</b>
Source: MCEETYA, National report on Schooling, Statistical Appendix, Tables 22, 22A, & 23			

**Chart 3A: Funding teachers in non-government schools (\$m 2006)**



According to the same national document that reports this amount, the total expenditure on teaching staff salaries and teaching staff-related costs amounted to some \$6.6 billion. Even if we took out the estimated \$270 million governments provided for capital works in non-government schools in 2006, it remains the case that governments are funding the equivalent of the costs of teaching staff in all our schools.

Of course, not all non-government schools – such as those with the highest fees and the (usually) lowest Commonwealth and State grants – may be covering the cost of their teachers from public funds. But these schools are in the minority within the independent schools sector: no more than one-quarter of independent schools, and around 3-5% of all schools, public, Catholic and independent.

This means that we have got to the point in Australia where at least 95% of all schools are being funded by governments for the cost of their teachers.

So: governments have a big stake in funding the supply and quality of teachers in the bulk of our schools. But they have no say in the criteria under which around 70,000 fully-publicly funded teachers are employed in some 2,500 non-government schools across Australia.

Governments are making it clear that they understand the importance of the quality of teaching in our schools. But the dysfunctional way our schools funding systems have evolved has taken governments out of play in this crucial area of public policy for a significant number of schools.

It would also be a good idea to get an informed idea of what resources are needed for what educational purposes.

Governments have had a preliminary go at this, through the MCEETYA reports on the resources needed for schools to achieve the national goals of schooling. But the estimated additional cost of more than \$2.5 billion a year proved to be too much to contemplate, and the work on this has apparently been shelved.

The result is that we still don't have an explicit standard to inform the funding levels provided by the funding partners.

By default, the current standard for public funding of non-government schools by the Commonwealth and most of the states is a measure of average recurrent resources in government schools. This is a moving standard, subject mainly to the responses of state governments to changing demographics, industrial relations and educational policies (e.g. class sizes in early primary education; vet in schools; school leaving age). And it is an average standard, which is unlikely to be meaningful for many individual schools in any sector.

Without some form of resource standard, or standards for schools with different characteristics and needs, there can be no explicit rationale for the allocation of funds to particular schools.

I'd like to think that it was possible to reach a better understanding of the resource implications of educational goals and objectives: literacy; participation; curriculum offerings; assessment and reporting; teaching quality; educational research and innovation. After all, school authorities have to deal with the provision and distribution of resources when they are faced with educational decisions and changes, such as those outlined previously. So it can be done, even if imperfectly.

The core of such a resources standard, of course, would have to be the number and quality of a school's teachers. And we know that governments already provide funds for this purpose.

The problem for governments is that an explicit standard can be used by interest groups to pressure them to provide more funding. So the current funding hiatus is ultimately due to judgments about political implications and strategies, not the educational needs of students. This should not be surprising. But it could be time to move on from political considerations only.

### **Conclusion**

When it comes to the politics of schools funding, a lot of the energy over the past few decades has resulted from the problem for governments in dealing with the aspirations of parents in the growing, especially independent, schools sector. These schools have disparate, often conflicting motives and characteristics. And they represent less than 10% of all schools.

Perhaps it's time to focus in the first instance on the 90%+ of schools that are now dependent on governments for their teachers and most of their operating costs when developing reformed educational and funding policies for schools; rather than continuing to be bogged down in the politics of dealing with the 10% .

If we focus instead on sensible policy directions for the 90%, it should be possible to reach sensible conclusions about the funding needed to achieve agreed goals and objectives for participation, curriculum depth and spread, assessment and reporting for continued improvement, educational infrastructure and innovations, teaching standards, planning and the like.

There would have to be some process by which the funding partners – Commonwealth and State governments, non-government school and system authorities - reach agreement on funding purposes, priorities and levels. A comprehensive, national approach would be required.

The Commonwealth Minister's foreshadowed review of the schools funding regime it inherited from the Howard Government is an opportunity to put in place this kind of comprehensive, national policy review. Let us hope that this is an opportunity that is taken.

Acknowledging the central, and moral, responsibility of government – Commonwealth and State – for providing public schooling of such a quality that the principle of universal access to quality education can be delivered would be a proper starting point.